



Annual Report and Accounts 2015

Mitchells & Butlers plc







£2,101m

+6.6%

Contents

Strategic report

- 2 Chairman's statement
- 2015 Highlights
- Mitchells & Butlers at a glance
- Chief Executive's statement
 - 8 Our market
 - 10 Delivering for our customers
 - 14 Our business model16 Our strategy

 - 18 Risks and uncertainties
 - 22 Key performance indicators
 - 24 Business review
- 26 Corporate social responsibility
- 31 Financial review

Governance

- 35 Chairman's introduction
- 36 Board of Directors
- 38 Directors' report
- 42 Directors' responsibilities statement
- Corporate governance statement
- 49 Audit Committee report
- 52 Report on Directors' remuneration

Financial statements

- 71 Independent auditor's report to the members of Mitchells & Butlers plc
- 74 Group income statement
- 75 Group statement of
- 76 Group balance sheet
- 77 Group statement of changes
- 78 Group cash flow statement
- 79 Notes to the financial statements
- 108 Five year review
- 109 Mitchells & Butlers plc Company financial statements
- 110 Notes to the Mitchells & Butlers plc Company financial statements

Shareholder information

- 116 Shareholder information
- 116 Glossary

Adjusted earnings per share*

Adjusted operating profit*

328m

+4.8%

Mitchells & Butlers plc is a member of the FTSE 250 and runs some of the UK's best-loved restaurant and pub brands including All Bar One, Harvester, Toby Carvery, Browns, Vintage Inns and Sizzling Pubs. Our vision is to run businesses that guests love to eat and drink in, and as a result grow shareholder value.

Our strategy to achieve this vision has five key elements:

- Focus the business on the most attractive market spaces within eating and drinking-out
- Develop superior brand propositions with high levels of consumer relevance
- Recruit, retain and develop engaged people who deliver excellent service for our guests
- Generate high returns on investment through scale advantage
- Maintain a sound financial base

Go online: www.mbplc.com

- News from around the business Corporate social responsibility



Chairman's statement

The market in which we operate remains challenging and competitive.

I wrote a year ago that our market remains challenging and competitive; this has continued with new supply coming into the market and consumer expectations evermore demanding. We are also expecting further cost inflation as a result of the introduction of the living wage from April 2016. These challenges mean we need to remain on top of our game, and continue to make the most of the outstanding assets we have in our estate.

Against this backdrop, I'm delighted that we are able to report adjusted EPS growth of 9.5% in the year. We've achieved this while making good progress operationally, with the integration of Orchid continuing, the completion of the pub systems project, further single site acquisitions in the UK and Germany, and growing further our like-for-like estate.

The resumption of a dividend is a further acknowledgement of the improvement in the Company's financial position over recent years as well as the Board's confidence in the future prospects for the business. This, together with the agreement reached with the pension trustees as a part of the 2013 triennial settlement, means that the Directors are recommending the payment of a dividend of 5p per share, with a progressive policy going forward based on the performance of the business.



FY

2015

2012

2013

2014

I was delighted to end the year with the announcement of Phil Urban's appointment as our new Chief Executive. Phil brings a wealth of experience from the wider leisure sector, has a strong track record of delivery and has had a significant impact on the business since joining as Chief Operating Officer in January. We welcome Phil to the Board and look forward to working with him to take the business forward.

I would also like to thank Alistair Darby for his significant contribution to the business in his three years as Chief Executive. We wish him all the best for the future.

Also on the Board, we appointed Stewart Gilliland as Senior Independent Director in February 2015, continuing the strong progress we have shown in this area in recent years. Since the year end Piedmont Inc. has nominated Josh Levy as one of its two non-independent representative Board Directors, replacing Douglas McMahon. Josh was therefore appointed to the Board on 13 November, and will stand for reappointment at the Annual General Meeting in January. I would like to welcome Josh to the Board and thank Douglas for his contribution. I remain very pleased with the makeup of the Board and how we continue to work together to drive the business forward.

As ever in this industry, our business is driven by the hard work and commitment of our employees, and I would like to thank them all on behalf of the Board for their continued efforts. It is our team of dedicated and passionate people who work hard to delight our guests and ultimately enable us to grow shareholder value.

We look forward to delivering further progress in the year ahead.

Bob Ivell Chairman







40

20

0

Mitchells & Butlers at a glance

A brand for every occasion.

We love building innovative brands and formats and run some of the country's best-known restaurants and pubs. So whether you're in the mood for an unlimited hearty breakfast with your family close to home, or a pint and some tapas in a buzzing city centre restaurant, we've a brand for every occasion.

Revenue by region (FY 2015) % of sales Scotland North East 4% 3% North West Yorkshire/Humberside 10% 8% West Midlands East Midlands 14% 5% Wales East of England 4% South West Total London **7**% South East (ex. London)

Harvester

A welcoming place for families to spend time together, have fun and share the pleasure of good, honest food. Enjoy our unlimited breakfast, free unlimited salad and fresh, tasty grilled meat and fish.

227





Ember Inns

Relaxed and welcoming suburban pubs, where conversation flows. We serve the best cask ales and classic pub food with a twist in stylish environments.

144 sites





Annual Report and Accounts 2015

Toby Carvery

The home of the roast! Every day, your local Toby Carvery lays on a family-sized feast of tender, slow-cooked meats, eight lots of vegetables including crispy, ruffled roasties and all the trimmings. You'll find lots more on offer, such as tasty specials, all-you-can-eat breakfasts and even comfy accommodation at some of our restaurants.

sites





ALEX

If you're out in a German city centre, these classic bars and brasseries are the perfect places to stop for a beer and a bite to eat. Soak up the sun in the outside eating area and try the classic meals, salads and healthy snacks that have made ALEX one of Germany's leading brands.



Nicholson's

If you share our passion for real ale, hearty food and a friendly welcome, you'll feel right at home at these traditional city and town centre pubs. Enjoy the timeless atmosphere that's been loved by groups of friends, colleagues and shoppers since our first pub opened in 1873.





All Bar One

At All Bar One, we've been running stylish city bars in central locations since 1994. Whether you want to catch up over cocktails, share a bottle of well-chosen wine or enjoy an excellent meal out, you'll find something, and somewhere, to suit you.

sites

ALL·BAR·ONE



Castle

If you like your pint served with real personality, pull up a chair in one of our eclectic urban pubs serving the best draught beer and great pub food. Each is decidedly individual, with a character to suit its community and an independence that attracts regulars as diverse and discerning as the beers on tap.





Browns

Since the first Browns opened in 1973, it's been providing delicious food and drink with superb service in beautiful surroundings with many located in unique landmark buildings.





Miller & Carter

You will not experience a better steak than that at Miller & Carter. We put everything into pursuing the perfect steak, from the field to the butcher's block to the grill, so only the finest, most flavoursome cuts make it to your plate.







Heartland

A collection of the UK's friendliest pubs and carveries. What unites these pubs is unbeatable value for money, generosity and big-hearted service.







Castle



Country Pubs

We are proud to manage over 300 of the best country pubs in the UK, all offering modern pub food and outstanding drinks served with care and character by our teams.





Chief Executive's statement

My most important job is to ensure that we get our brands right, and free up the leaders of our teams to delight our guests again and again.

Over the coming pages I will share my views on the business, our strategy and KPIs, and our key risks and uncertainties. But I thought I would begin by taking a few moments to introduce myself as the new Chief Executive of your Company and to share with you some of my priorities going forward.

I joined M&B in January 2015 having gained over 25 years of experience in the UK hospitality sector, working for companies like, Scottish & Newcastle, Whitbread and Rank. In that time I have learnt that this sector is essentially all about people, and always will be. While it is important to have great sites, with strong brands, in good locations with relevant appealing offers, the differentiator is having a team of talented people who are passionate about giving their guests a great experience, each and every time they visit. My most important job as Chief Executive therefore is to ensure that we get our brands right, and then free up the leaders of our teams to do what they do best, which is to delight our guests again and again!



If we are to achieve this aim we have a lot of work to do. We have to create the right balance of insight-driven brands, ensuring that we have the right offer in each location. We need to simplify the way we work, removing the bureaucracy in the business and freeing up our team to spend more time in the business serving our guests. We also need to instil a stronger commercial edge to the way we do business, driving profitable sales and value creation. Whilst doing all of this, we also need to continue identifying, developing and nurturing our 'stars', to secure the long-term future of our Company.

This is against the market backdrop of increasing competition with a consumer who is becoming ever more demanding and a major cost headwind on the horizon in the form of the National Living Wage. However, such challenges are not new to the industry, to our Company or to me as an individual – and I believe that M&B has the scale and experience to carry on winning in this environment.

Phil Urban Chief Executive

Our vision

What we want to be famous for Guests love to eat and drink with us.

Our mission

What we set out to achieve

Consistently deliver great service to our guests to drive repeat visits and recommendation, while delivering great financial results and shareholder returns.

Values

How the business behaves

- PassionRespect
- Innovation
- Drive
- Engagement

Page 8

Page 14

Page 16

Our market

Where we operate

We recognise that we operate in a dynamic market with ever-changing circumstances. Our market is, in aggregate, a mature one with growth expected broadly to track GDP and consumer expenditure. However, there are dynamics within this market on which we can capitalise, namely the:

- growth in branded outlets
- continued growth in eating-out
- consumers' continued focus on value
- consumers' demand for eating-out at any time of day

Business model

How the business delivers value

Our business model is designed to maximise revenue and profit from our operations. We believe that by adopting industry-leading practices; recruiting, training and retaining

the best people, and by focusing on excellent customer service we will deliver long-term growth in profits and shareholder value.

Our strategy

How we will achieve our mission

Our strategic priorities remain unchanged to:

- focus the business on the most attractive market spaces within eating and drinking-out
- develop superior brand propositions with high levels of consumer relevance
- recruit, retain and develop engaged people who deliver excellent service for our guests
- generate high returns on investment through scale advantage
- maintain a sound financial base

Risks

How we manage our markets and operating environment

This section highlights the principal risks that affect the Company, together with the key mitigating activities in place to manage those risks. Key risks identified are reviewed and

assessed by the Risk Committee in terms of their likelihood and impact, in conjunction with associated risk mitigation plans.

KPIs

How we monitor our success

We measure our performance and progress against our strategy through five key performance indicators including two non-financial KPIs, relating to our ability to retain our employees and to the extent

that our guests would recommend our businesses to their friends and family. These KPIs are reviewed at every Executive Committee meeting and are central to our understanding of our performance.





Page 22



Annual Report and Accounts 2015

Our market

Listening to our customers.

The environment in which we operate remains competitive and dynamic.

1,700

There have been around 1,700 net new restaurant openings in the UK in the year

£7.20

The National Living Wage will be introduced in April 2016 at £7.20 per hour for employees aged over 25

The external landscape

The environment in which we operate remains competitive and dynamic. New supply into the market has been widely reported, consumer trends are evolving and becoming ever more demanding, and we are facing a dramatically changing cost landscape with the introduction of the National Living Wage next year. However, such challenges are not new to the industry or the Group, and we will respond with energy and urgency to each.

Market supply

In recent years the UK eating and drinking-out market has changed significantly. We have seen the number of restaurants increase, with net new openings of around 1,700 in the year to June, and close to 5,000 from 2012 to 2015. Over that period there have been more than 3,500 restaurant closures, and many pub closures, highlighting the ongoing structural change in the market and the competitive environment in which we are all operating.

The composition of the market has changed: independent restaurants and tenanted pubs have reduced, with growth coming from the branded sector and casual dining. Much of the new competition in the sector is 'fast-casual', with operators often single-brand focused, with a relatively small number of outlets and flexibility to keep offers fresh and up-to-date.

In several of our outlets we have seen the direct impact of competition opening in close proximity. More than half of our Harvester and Toby Carvery sites have been impacted by direct competitors opening in their immediate catchment, with several of those seeing multiple new openings nearby.

This clearly has an impact on short-term trading, and presents a challenge for us to meet. However, we recognise the strength of our brands and that these new entrants have the effect of growing the market over time, and present an opportunity for the strongest and best executed offers to grow.

Consumers

The changing competitive landscape is a direct response to a more demanding consumer. Expectations are rising on quality, environment, value and the range of offers available. Value continues to be important,

although crucially this does not just equal low price. Consumers are now increasingly looking to explore and broaden their horizons for eating and drinking-out. There is also a greater demand for personalisation – the mindset of having 'what I want and when I want it' continues to strengthen.

Consumers' lifestyles are also changing. Alcohol consumption is reducing, and there is a broad trend towards health consciousness, although very much still retaining a willingness for the occasional indulgence in 'guilty pleasures'.

Finally, the impact of technology is ubiquitous. Consumers are increasingly digitally connected in all aspects of life, with implications for how we communicate with and serve them.

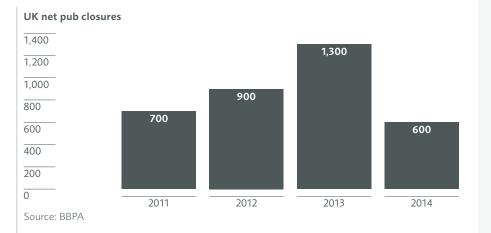
National Living Wage

The introduction of the National Living Wage is highly significant for our industry due to the relatively high proportion of employees paid at or close to the minimum wage, with earnings supported by gratuities. As a large employer, with more than 44,000 employees, we need to respond to what will be an impactful cost headwind. With consumers as focused as ever on value and service, we do not believe it will be possible for companies in our sector to simply 'control' their way out of the National Living Wage.

Our approach must therefore be rounded and must consider the long-term horizon: we recognise that it is a cost headwind but also that it potentially presents some consumers with higher incomes. We continue to consider productivity and efficiency opportunities, including technology and reviewing brand service models. We will also continue to look at opportunities to increase guest spend per head. This may mean tactical price opportunities to the extent we feel it is appropriate for certain brands, but also offering our guests the opportunity to trade-up the menu. Finally, we must respond to changes in consumer demand that arise, and therefore must continue to monitor the relevance of our offers. These processes will remain iterative throughout the coming years.

UK net pub closures

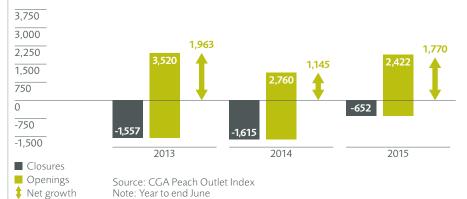
The total number of pubs in the UK has reduced by 3,500 to 51,900 in the last four years.



UK restaurant openings

The net number of restaurants in the UK has grown by almost 5,000 in the last three years, despite over 3,500 closures.

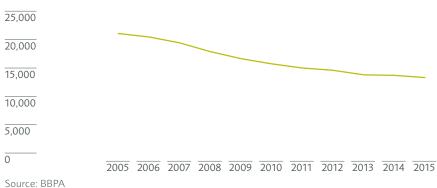
UK restaurant openings



UK Quarterly Beer Barometer

The UK on-trade beer market has declined by 7.8 million barrels over the last decade.

UK on-trade beer volumes '000 barrels

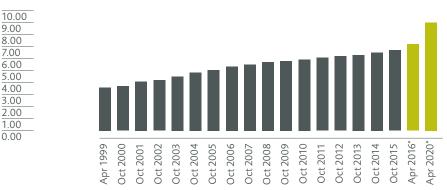


Note: Year to end June

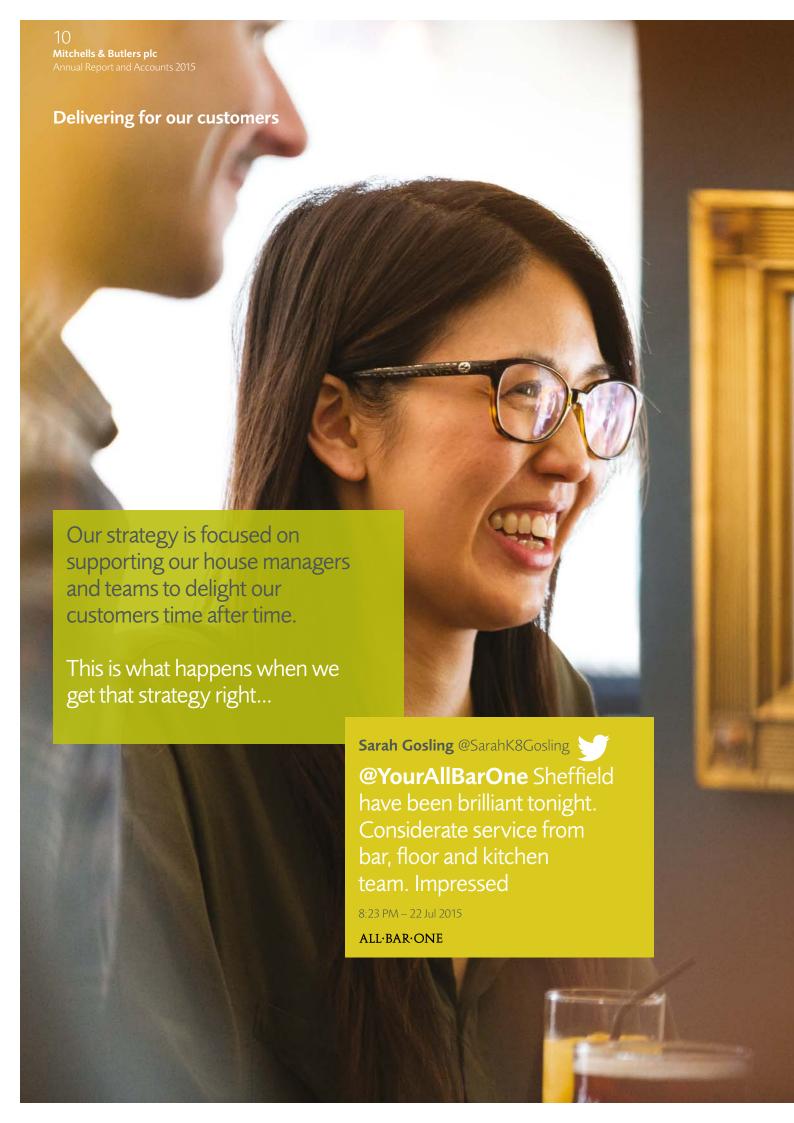
National Minimum Wage/ National Living Wage

The National Living Wage will be introduced at £7.20 per hour in April 2016 rising to at least £9.00 by April 2020.

UK adult National Minimum Wage/National Living Wage £s/hour

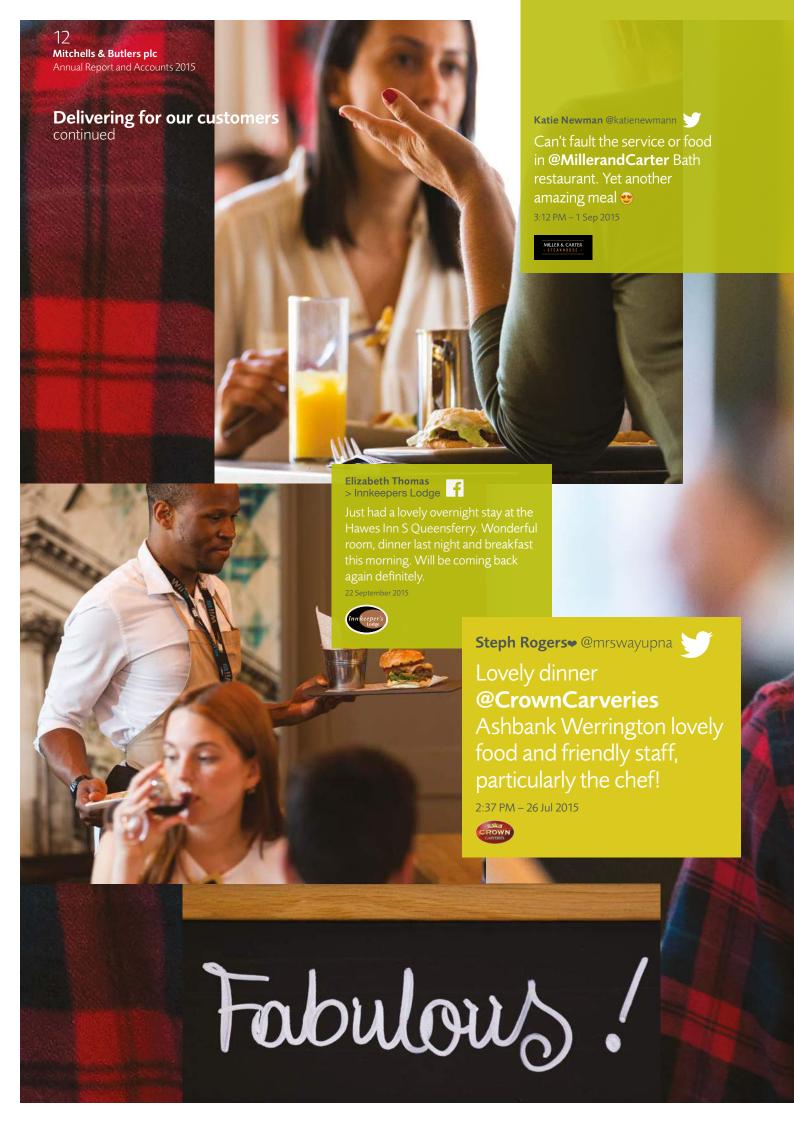


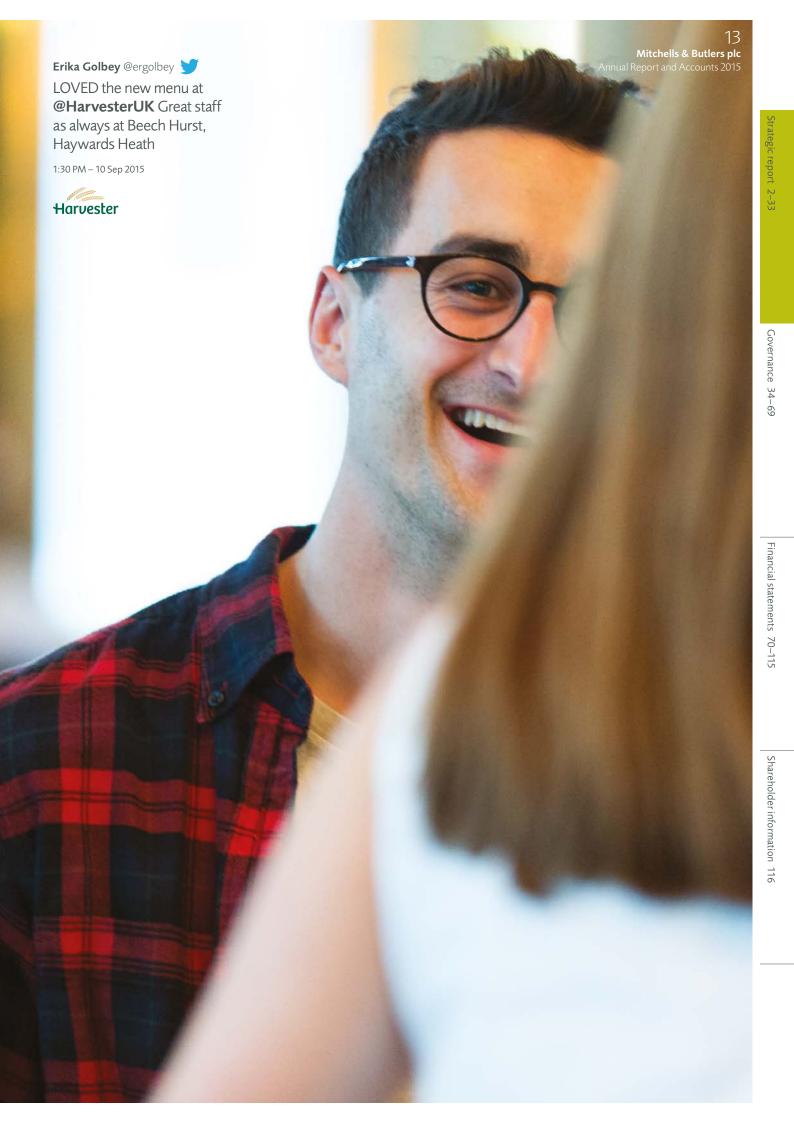
National Living Wage for over 25s.











Our business model

Creating sustainable value.



1 Our people



Recruit

Recruit the right people at all levels of the organisation.

We employ more than 44,000 people who are vital to the successful running of our business. In a highly competitive market serving guests with increasingly high standards and expectations, our people are the key differentiating factor in giving them a great experience, each and every time they visit and in helping us to gain a competitive advantage. Our approach to people is therefore to:

 Recruit the right people at all levels of the organisation. We recruit our people to be great at hospitality, with a focus on personality rather than experience.



Induct and train

Induct and train our new people to see them through what can be a steep and pressurised learning curve.

We look to recruit people who share our values of Passion, Respect, Innovation, Drive and Engagement, and who wish to progress within the organisation;

• Induct and train our new people to support them through what can be a steep and pressurised learning curve. This involves strict compliance training to ensure our high standards are maintained, but also welcoming them into a supportive environment so that they feel prepared when serving guests for the first time. Where possible we look to promote to house manager and beyond from within



Retain our people by helping them build a career that works for them.

the organisation, offering a compelling reason to join our fantastic business; and

Focus on team engagement, helping to retain our people by helping them build a career that works for them. We can use our scale to offer flexibility in the workplace as well as a fantastic and varied career path. We encourage our people to make the most of working for our brands, but also to develop and build a career with us. We offer nationwide opportunities across a range of formats and functions including front of house, back of house and in our Retail Support Centre.



2 Our practices



Safety

Our approach to safety is our first and most important priority in operating our businesses.

Our practices refer to the way in which we approach all of our key activities, including compliance with legislation; how we conduct ourselves in interacting with our various stakeholders; and how we utilise equipment and technology. Consistent and faultless adoption of these practices gives us the foundation to be able to operate outstanding pubs and restaurants for our guests to enjoy.

Our first and most important priority in carrying out these practices is safety. We set ourselves the highest standards to ensure that our businesses are safe for our people to work in and our guests to eat and drink in.



Suppliers

We work with our suppliers to deliver the best products at the best value to our guests.

These principles are paramount in everything we do, and are reflected in performance measures at all levels of the organisation.

We work with our suppliers seeking to deliver the best value to our guests. Our approach to supply chain management is to utilise our scale through volume suppliers where appropriate, but to also work in partnership with smaller specialist suppliers such as local farmers, when it benefits the product and gives the best quality and value to our guests. Outside of products we also work closely with building and maintenance contractors and technology suppliers to deliver value and standards throughout the wider business.



Technology

Our practices rely on us staying relevant in our approach to technology.

Our approach to systems and technology is increasingly important to the way in which we do business. This includes appropriate technology in our pubs and restaurants, both front and back of house, as well as the wider support to the business in terms of management information and use of data for decision-making. In the year we completed our investment in new EPOS systems to enable greater efficiency within our operations by speeding up order taking and bill payment, improving business controls, and allowing our retail teams to spend more time with our guests. We also fully recognise the importance of enhancing our investment in our digital capability to understand, communicate and interact with our guests.



3 Our guests

Our aim is to delight our guests through each and every one of the 140 million meals and 430 million drinks we serve each year. This is the output of having the right people in place and by adopting the right practices, and ensures that we are able to welcome guests into a clean, safe and friendly environment.

Beyond this, we need to offer brand propositions that meet our guests' wide-ranging

and evolving needs. These offerings vary across our range of brands. For example, we have an outstanding range of cask ales in Nicholson's and Ember Inns, live sport with high-value food and drink in our Heartland estate, family roast dinners at the likes of Toby Carvery and Country Pubs, and special occasion dining in Miller & Carter and Browns. This takes place at some of the most outstanding locations across the country.

We have dedicated teams of employees focused on making all of these propositions available at great value for our guests. Through this focus we aim for our guests to leave us having had a pleasurable and memorable experience, and one that they will highly recommend to friends and family to broaden our guest base further.

Our business model focuses on the principle that by operating with the best people and with the best practices, we will deliver outstanding experiences to our guests and generate sustained value to our various stakeholders. Through delivery of these priorities, we can deliver our strategic goals and deliver further value to our stakeholders.



Strategy

FY 2015 progress

FY 2016 priorities

- 1.
 Focus the business on the most attractive market spaces within eating and drinking-out
- We converted 41 Orchid sites to our brands and formats, directed to the market space appropriate for each individual investment
- We opened a further 14 businesses across a range of our brands, including All Bar One at Birmingham New Street station and three ALEX sites in Germany
- Make selective acquisitions across our portfolio of brands
- Maximise trading across day-parts and our under-utilised space

- 2.
 Develop superior brand propositions with high levels of consumer relevance
- Improved and extended our breakfast offerings with more than 12 million breakfasts sold in FY 2015
- We have begun to trial new Heartland concepts with the introduction of Sizzling Pizza & Carvery and Sizzling Pub & Grill
- The rollout of our EPOS systems project was completed
- We will upgrade our digital capability to enhance understanding and communication with our guests
- We will continue to develop our market research to enhance the offering to our guests in terms of our menu development and product ranges
- We will encourage innovation, trial and new product development where it complements our existing business and core capability

- 3.
 Recruit, retain and develop
 engaged people who deliver
 excellent service for our guests
- Retail staff turnover fell to a new historical low of 76% in FY 2015
- Phil Urban was appointed as Chief Executive, having joined the business as Chief Operating Officer in January 2015
- We achieved Top 100 Graduate Employer status in 2015 for the third year running
- We will focus on building team engagement throughout the business
- We will ensure that the business is fully focused on supporting our house managers, who run our businesses, interact with guests and recruit team members
- We will develop, empower and promote the strongest performers in our business
- We will continue to focus on improving staff turnover, in the belief that stable teams are best-placed to deliver exceptional guest experiences

- 4.
 Generate high returns
 on investment through
 scale advantage
- We have improved our blended return on expansionary capital expenditure to 18%
- We have generated strong returns on the converted Orchid sites
- The Orchid sites not being converted have been integrated into our Heartland business
- We will continue to focus on improving the efficiency of our investments
- We will accelerate investment into our most successful formats, where we have the greatest scope for expansion, and aggressively defend those segments where we are already market leaders
- We will complete the Orchid integration and conversion to our brands and formats

- 5. Maintain a sound financial base
- We generated cash flow post-bond amortisation of £28m*
- We continued to integrate the Orchid business in line with the acquisition plan, including closure of the head office to generate annual cost savings of £6m
- We have long-term debt financing on our large, predominantly freehold asset base
- Net debt fell to 4.3 times adjusted EBITDA
- We will continue to prioritise long-term financial stability for the Group
- We will focus on instilling a more commercial culture throughout the business with a focus on driving profitable sales
- The triennial valuation of our pension scheme will take place as at 31 March 2016
- * Cash flow post-bond amortisation excludes £120m transferred from cash to other cash deposits.



Risks and uncertainties

How we guarantee a great customer experience.

Risk overview

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

Risk management is critical to our corporate responsibilities and to the delivery of shareholder value. Risk is at the heart of everything we do as an organisation. Therefore the process for identifying and assessing risks and opportunities is an integral and inseparable part of the management skills and processes which are the core of our business.

There is an established Risk Committee in place, which met on four occasions in FY 2015 and continues to meet on a quarterly basis to review the key risks facing the business. Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact, within the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. The processes that are used to identify and manage risks are described in the Internal Control and Risk Management statement on pages 47 and 48.

Management support, involvement and enforcement is fundamental to the success of our risk management framework and each member of the Executive Committee takes responsibility for the management of the specific risks associated with their department. Our Group risk register clearly outlines the alignment of each key risk to an Executive Committee member and an 'action owner', to ensure responsibilities are formally aligned.

Therefore, there is a robust and transparent process in place to provide an appropriate level of direction and support in the identification, assessment and management of those aspects of the business which have the potential to damage seriously our financial position, our responsibilities to our staff and customers, our reputation and our relationship with key stakeholders.

Our three lines of defence

First line of defence

- Executive Committee
- Leadership group/ management
- Internal controls and processes
- Internal policies and procedures
- Training

Second line of defence

- Financial authority limits
- Risk management processes
- Audit Committee
- Risk Committee
- Health and safety
- Technology
- Legal

Third line of defence

- Group Assurance
- External audit
- Operational Practice Team

Changes since 2014 Annual Report:

Reduced

Movement and impact:

O Hig O Me

Medium
Low

Actively managing potential risks

Risk category

Risk description

Mitigating activities

Movement and impact

Market risks

Consumer taste and brand management

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

In FY 2013, the Company conducted a major piece of consumer research, interviewing 8,000 consumers about 14,000 leisure occasions. This research examined macro economic trends, consumer dynamics, competitor and internal brand positioning and the Company's strengths and weaknesses. The business continues to implement the outputs from this project to refine further its brand positioning and ensure the portfolio's continued relevance for guests. This is discussed in detail in the Business Review on pages 24 and 25.

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

Net promoter score, as defined on page 116, is the key measure of success in this area, and this has improved from 63% in FY 2014 to 65% in FY 2015.

Changes since 2014 Annual Report:





Pricing and market changes

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

Mitchells & Butlers is focused on the long-term potential of the eating-out market. The Company owns sites across the UK with a wide spectrum of offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different brand at a particular location. This activity is supported by dedicated Sales and Margin Managers and Asset Planning teams which analyse and evaluate a range of information including that in respect of competitors.

Changes since 2014 Annual Report:





Operational risks

Cost of goods price increases (including energy price increases)

Increases in the price of goods for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting margins.

Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry on the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. The Company continually evolves the composition of menus and retail prices in order to optimise value to the guest as well as profits for the Company.

The energy procurement strategy seeks to reduce the risk of cost increases and uncertainty over energy prices by a rolling programme of short and medium-term purchases against forecast requirements. A dedicated energy management team is responsible for optimising energy usage across the organisation by promoting energy efficient working practices via training and educational programmes and by the installation of energy efficient equipment.

Changes since 2014 Annual Report:



Risk rating:



Risks and uncertainties

continued

Risk description Risk category Mitigating activities Movement and impact Operational risks continued Mitchells & Butlers has a strong The Company makes significant investment in training Changes since People planning to ensure that its people have the right skills to perform 2014 Annual and development guest focus, and as such it is important that it is able to attract, their jobs successfully. Furthermore, an employee survey Report: is conducted annually to establish employee satisfaction retain, develop and motivate the best people with the right and engagement and this is compared with other Risk rating: capabilities throughout the companies, as well as previous surveys. Where organisation. There is a risk appropriate, changes in working practices are made that without the right people in response to the findings of these surveys. our customer service levels would be affected. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. Staff turnover is the key measure of success in this area and the Company has maintained the low rate of 76%. **Business continuity** Mitchells & Butlers relies on its The Company has in place crisis and continuity plans Changes since 2014 Annual food and drink supply chain and that are tested and refreshed regularly. and crisis Report: management the key IT systems underlying the business to serve its guests In September 2014, the Company's third-party efficiently and effectively. Supply back-up facility, for retail support centre employees, Risk rating: chain interruption, IT system was successfully tested to ensure critical business failure or crises such as terrorist systems are able to function in the event of a disaster. In addition, during FY 2015, departmental Business activity or the threat of disease pandemic might restrict sales or Continuity Plans have been developed and reviewed reduce operational effectiveness. by the Risk Committee. **Disaster Recovery** There is a risk that inadequate In FY 2015 a detailed review of Disaster Recovery Changes since 2014 Annual and IT Resilience disaster recovery plans and and IT Resilience was performed in order to highlight processes are in place to mitigate and address any challenges that had been presented in Report: against a system outage, or exploring the viability of a Disaster Recovery test for our failure to ensure appropriate business critical applications. Mitigating solutions have been critically assessed during the year. Risk rating: back-up facilities covering key business systems and the recovery of critical data. There is a risk that increased The National Living Wage will be introduced in April 2016 **National Living Wage** Changes since at £7.20 per hour, rising to at least £9.00 per hour in costs associated with the 2014 Annual introduction of the National April 2020. A detailed review of the risks associated Report: Living Wage may adversely with successfully implementing the National Living Wage impact upon overall has therefore been completed. This review has been operational costs. undertaken at a strategic level and seeks to ensure that Risk rating: appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate. Implementation of the National Living Wage will

continue to remain an area of focus as we enter FY 2016.

Changes since 2014 Annual Report:

1 Increased

No change Reduced

Movement and impact:

High Medium

Risk category

Risk description

Mitigating activities

Movement and impact

Finance risks

Borrowing covenants

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

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

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

is maintained with the Securitisation Trustee.

is £350m (FY 2014 £425m).

Changes since 2014 Annual Report:



Risk rating:

Pension fund deficit

The material value of the pension fund deficit remains a risk.

The Company has made significant additional contributions to reduce the funding deficit. In May 2014, the Company reached agreement on the triennial valuation of the Group pension schemes as at 31 March 2013, at an increased funding shortfall of £572m (March 2010 valuation £400m). The value of total liability at the end of FY 2015, following the revised contributions,

Changes since 2014 Annual Report:



Risk rating:

Regulatory risks

Failure to operate safely and legally

A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation. Mitchells & Butlers maintains a robust programme of health and safety checks both within its restaurants and pubs and throughout the supply chain. The dedicated Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergen specialists to ensure that our food procedures are safe. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

Changes since 2014 Annual Report:



Risk rating:



Key performance indicators

Measuring our performance against our strategy.

			1999
KPI	Definition	FY 2015 performance	Link to Strategy
A. Staff turnover 76% FY 2015	The number of leavers in our retail businesses, expressed as a percentage of average retail employees. This measure excludes site management as well as employees who leave and rejoin the business within the same year.	Retail staff turnover improved by 2 ppts to a new historical low of 76%, continuing the progress seen in recent years.	3
B. Net promoter score 65% FY 2015	The net promoter score for a pub is defined as the percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 out of 10 ('brand detractors') to the statement "I am likely to recommend this pub to a friend and/or relative". Responses scoring 7 or 8 ('passives') are excluded from the calculation.	Increased by 2 ppts to 65%. In the year ahead we will be optimising our guest survey platform in order to take advantage of new technology. This will allow us to improve both the user experience for our guests, and the insight we can capture to ensure we can quickly react to what our guests are telling us, although it is likely to result in a rebasing of this measure.	1, 2, 3
C. Same outlet like-for-like sales growth +0.8% FY 2015	The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.	Like-for-like sales growth started the year strongly, but saw a weaker second half to end the year at 0.8% in FY 2015.	1, 2, 3
D. Incremental return on expansionary capital 18% FY 2015	Expansionary capital includes investments made in new sites and investment in existing assets that increases the trading area or materially changes the guest offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital.	Overall our returns increased to 18% (FY 2014 16%), with improvements on freehold acquisitions and conversions. Returns on leasehold acquisitions are in line with last year.	1, 4
E. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	Adjusted earnings per share increased by 9.5% to 35.7p.	4, 5



Business review

We continue to operate and measure our business performance across three priority areas.

Business review

Mitchells & Butlers is a leading UK operator of managed restaurants and pubs, with a high quality freehold estate and a portfolio of strong brands. Our strategy is to focus on the long-term growth of food and drink within the £80bn eating and drinking-out market, with around three-quarters of our turnover coming from guests eating in our pubs and restaurants.

In FY 2015 we have achieved strong earnings growth. Against this backdrop, and reflecting confidence in future prospects for the business, we are recommending the payment of a final dividend of 5p per share. Going forward we expect the final dividend to represent two thirds of the full year payout.

Like-for-like sales started the year well but softened over the last quarter. The weather in the summer was generally poor, such that beer gardens did not see the benefit of any sustained period of sunshine. The market is becoming increasingly competitive, and we have seen this sales weakness persist into the early weeks of the current financial year. These are challenges which we are addressing.

Against this modest sales growth we have continued to generate value for our shareholders through our focus on costs and trading margins.



We have delivered 9.5% growth in adjusted EPS, whilst continuing to de-lever the business, with net debt to adjusted EBITDA falling to 4.3 times.

FY 2015 also saw the completion of the EPOS systems projects, with new payment systems, tills, handheld devices and kitchen management equipment now rolled out across the estate. We have also continued the integration of the Orchid business, completing the closure of the head office and executing the conversion programme with encouraging results. Unconverted sites have now been integrated into our business within Heartland and are operating very much as business as usual.

Our priorities

We are addressing our challenges by continuing to work towards our strategic goals. In order to generate consistent and sustained shareholder value we have identified three priorities, focused on: building a more balanced business, instilling a more commercial culture, and increasing the pace of execution and innovation.

Build a more balanced business

Our well established brand portfolio is an area of great strength for the business, with national presence and enduring guest appeal. This is evident from high levels of sales and the strong returns on investment we have generated from converting Orchid sites to our brands. We need to continue to ensure that all of our brands have a clear and targeted proposition, and that they remain relevant to our guests in a dynamic market.

We must also ensure that we have the appropriate balance of brands, and number of sites within each brand, according to demographics and changing consumer needs. For example, we have Miller & Carter: a successful premium brand with only 36 sites but the potential for many more. We also have Harvester: a mid-market brand with more than 200 sites. The Harvester brand remains powerful, as evidenced by the strong sales seen in our Orchid conversions. However, it is susceptible to new competitors due to its size and positioning. Therefore we need to invest in protecting our more mature established brands and accelerating the expansion of our most successful smaller brands, with a view to having a better balanced business in the longer term to deliver more predictable and sustainable shareholder returns.

Instil a more commercial culture

We will instil a truly commercial edge to our business, with a focus on driving profitable sales day in and day out. We are not looking to generate higher like-for-like sales at the expense of profitability, and therefore our approach to driving sales must vary according to our different brands and their various life-cycle stages, finding the right balance in each case.



We have also worked hard on getting back to basics with management targets and performance data, ensuring that our balanced scorecard approach is focused on managing our P&L, and continuing to convert sales to profit.

We have installed a sales function to apply a structured approach to maximising opportunities from some of the under-utilised space we have at our disposal.

We recognise the need to increase the pace at which we operate and the speed with which we react in a dynamic marketplace. Simplicity throughout our business is vital. We see the house manager role as critical in our organisation: they need to be leaders, taking ownership for every aspect of their business and every aspect of the customer journey. Our area managers are the front line support to the house managers, and as a wider business we need to be set up to focus fully on supporting these key roles. We are therefore simplifying the business and focusing on clear metrics, to allow our area managers the time to be in their businesses, focusing on the standards of the operation and on truly delighting our guests.

We also recognise the need to capitalise on our team of outstanding people, by ensuring we are a company that the best people want to work for. We need to identify those with the most talent and highest potential, and ensure they are offered the right career plans and development paths to remain with the business and take it forward in the long term.

We see applying these basic principles as the key to unlocking the potential of the high-quality team we have at our disposal, and to creating a results-orientated culture throughout the business.

Increase the pace of execution and innovation

We need to approach innovation with urgency and from all angles: new product development, the use of technology to improve efficiency, and digital innovation to drive the best engagement with our guests.

Given the competitive environment, we will increase the level of trial activity that we undertake, and accelerate the rollout of those which are successful. This will help us to improve the return from our existing assets and to exploit further market opportunities through new product development. In the last year we have invested in our Heartland estate with two new concepts: Sizzling Pizza & Carvery provides an innovative solution to move our Crown Carveries business forward; and Sizzling Pub & Grill is an extension of the existing Sizzling Pubs offer. A small number of these formats have been trialled, with results exceeding expectations so far, and we are planning to accelerate the roll-out.

Our guests are increasingly digitally connected in all aspects of their life. This provides a significant opportunity for us, to communicate with and reach our guests in a variety of new ways, to engage with them with new offers, and to get a deeper understanding of consumer preferences to further drive insight. Our focus on innovation is critical for us to maintain our competitive position in a rapidly evolving market.

Outlook

Sales in the first eight weeks of the year have been soft, with total sales down by 1.3% and like-for-like sales down by 1.6%, reflecting an increasingly competitive market.

As we face these challenges we have a clear set of priorities going forward. We are continuing with our strategy whilst retaining a flexible approach across our extensive portfolio of pubs and restaurants, seeking sustained and balanced profit growth rather than purely the pursuit of sales. Through this we are confident we can deliver strong shareholder returns.

Phil Urban Chief Executive

Corporate social responsibility

Our guests trust us to serve good food that represents good value for money, which is safely prepared and cooked. At Mitchells & Butlers we are committed to earning the trust and respect of our customers, employees and neighbours. Whether that's through supporting people in the communities around our pubs, ensuring our team members have a great career path, or working closely with food and drink suppliers on nutrition and waste, we are committed to improving the way we do business year on year.

Food sourcing

We work closely with a network of trusted suppliers to source the best quality ingredients for our menus. When buying our food we ensure our high food safety standards are met, we are sourcing quality products, and we are taking into account provenance and price.

All our food suppliers are required to comply with the British Retail Consortium's technical standard which requires their staff to be properly trained and supervised and for the supplier to meet high standards of food safety.

We are proactively working with our suppliers to improve the quality and range of products available within the Mitchells & Butlers' supply chain. We continue to strengthen our relationships with UK growers, working direct where possible to remove the wholesaler's margin and delivering fresh seasonal products to our kitchens. For example, we use British



strawberries when in season and all our fresh potatoes in Toby and Crown Carveries are British. We have also begun a trial to grow our own potato crop through a direct supply contract at Brechin in Scotland.

Our Cattle Scheme continues to develop and we are now working with 21 farmers, rearing around 2,000 calves under our direct contract agreements. Since Spring 2015 the scheme has supplied Miller & Carter with beef steaks from around 20 animals every week, all traceable from farm to fork.

We take responsible sourcing extremely seriously and recognise concerns about the sustainable sourcing of fish. We are committed to working with our supplier base to ensure well managed and sustainable fishing practices are in place. For example, we source line caught cod for our menus in a number of our brands.

We have an annual spend (cost value) of over £19m on beef and poultry products that are covered by Red Tractor accreditation, the UK's largest food assurance scheme. These products are endorsed on our menus using the Red Tractor logo. For example, we use British chicken in Harvester; all our beef in Toby Carvery and Harvester is of British and Irish origin; and we use 100% British beef in Miller & Carter. In addition, we buy more than 32 million free range eggs a year.

Good food

Our guests trust us to serve good food that represents good value for money, which is safely prepared and cooked. They also trust us to source food that is both sustainable and ethical, with due regard for high standards of both workers' and animal welfare. This is an integral part of our strategy of developing superior brand propositions as detailed on page 16.

Nutrition

We continue to look for the most effective way to present nutritional information to our guests across our portfolio of brands. By using our guest insight to understand better our guests' preferences and priorities, we can develop our nutritional messaging to ensure it remains effective. We believe our focus should be on communicating ingredients, healthy cooking techniques, the freshness of our food and providing healthier options to enable our guests to make an informed choice when eating with us.

We publish the nutritional information for our menus on our websites for Harvester, Toby Carvery, Crown Carveries, Ember Inns, Sizzling Pubs, O'Neill's, Oak Tree Pubs, Vintage Inns and All Bar One.

Nutritional information is provided as a guide and values are calculated using detailed recipes that include weights and measures, manufacturers' nutrition data and lab data where required. We have invested



In 2015 Miller & Carter were awarded the title of serving 'England's Best Sirloin Steak' within the Foodservice sector, the result of an independent assessment by the English Beef and Lamb Executive.



For the third year running we won the award for 'Food Service Operator of the Year' at the 2015 British Turkey Awards, demonstrating our commitment and support for British farming and support for the British turkey industry.

significantly in technical processes and systems to incorporate the requirements of Regulation (EU) No. 1169/2011 on the provision of food information to consumers (EU FIC). We follow both regulatory and best practice advice, to ensure the information is as accurate as possible and helps our guests make the most informed choice to suit their dietary needs and preferences.

It is now a mandatory requirement for all suppliers to Mitchells & Butlers to provide us with nutrition information for every food product, and to follow Company policy on the provision of accurate nutrition data. This enables our chefs to have the detail required to design and improve dishes that meet the specific nutritional requirements of our guests.

Allergens

We are compliant with the new EU legislation, which came into effect in December 2014, concerning the availability of information about 14 common food allergens.

Sal

In the Autumn of 2015 all our brands replaced standard salt used in salt shakers on the tables and to season food back of house, with a mineral salt containing 15% less sodium than standard salt and which is high in magnesium, thereby delivering on our commitment to the Government Responsibility Deal pledge to support and enable consumers to reduce their dietary salt intake.

This will remove over 16.8 tons of salt from our guests' diet.

Magnesium has no less than 10 authorised health claims including contributing to the maintenance of normal teeth and bones.

Signposting of healthier options

In April 2015, in partnership with Campden BRI we developed a guide to help position our brands as leaders in the industry for healthier options and enable guest communication that is on trend, truthful, substantiated and legally compliant.

Corporate social responsibility

continued

This best practice guide translates the regulations and relevant codes of practice into user-friendly language to support the development and communication of commercially viable healthier options that comply with all relevant regulations and do not mislead the guest.

The guide also includes practical advice for suppliers and our development chefs to help reduce calories, sugars, fat and saturated fats, with the focus on adopting healthier cooking methods, selecting alternative ingredients and technical solutions for designing healthier options that deliver on taste and quality.

Several of our brands have increased their range of healthier options, and supported these with nutrition and health claims to make them easily identifiable to the health conscious guest. Examples include: Toby Carvery's signposting of a range of menu options which are low in saturated fat and 500 calories or

Last year we created 1,400 new

Last year we created 1,400 new jobs by opening new retail sites across the UK

less; Sizzling Pubs' guilt-free curries and burgers containing at least 30% less fat and saturated fat per 100g compared to the classic curries and burgers; Harvester restaurants which all contain menu options between 250 and 500 calories; and All Bar One's range of calorie controlled options, with the energy published on the menu copy, and dishes high in protein, omega-3, antioxidants and 'lighter' options are also signposted.

Responsibility Deal partnership

We are committed partners of the Government's Responsibility Deal, and have signed up to delivering pledges relating to artificial trans fats and salt reduction.

In addition, this year we have signed up to pledges, and submitted delivery plans to the Department of Health, in respect of fruit and vegetables (Crown Carveries, Toby Carvery, Harvester) and calorie reduction (Harvester). We will support and enable our customers to eat and drink fewer calories through product and menu reformulation, reviewing portion sizes, education and information.

Children's Menus

In response to the growing concern over childhood obesity, we have developed our own Children's Food Standards that will be implemented across all brands from Spring 2016.

The standards incorporate best practice and recommendations from leading health charities such as Soil Association and have been developed with consultation of the School Food Standards, Government Buying Standards and established dietary recommendations for children.

They have been designed to help all our brands improve the nutritional profile of their children's food and drink offering, so that all menus provide variety, controlled levels of public health sensitive nutrients and make healthy eating easier for our guests, whilst still maintaining the feel of a treat occasion.

Food safety

One of our Key Performance Indicators (detailed on page 22) is our Net Promoter Score and as part of this we have made a commitment to increase the number of our businesses that achieve a 4 or 5 star food hygiene rating, taking a zero tolerance approach to anything below. We continue to strive for a score of 5 in each business and conduct independently commissioned audits in all of our businesses at least twice per year. We have rigorous checks and policies in place and we consult regularly with Government and local authorities to ensure we maintain the highest standards in food safety. We are currently investing significantly in upgrading our safety training including Food Safety, Fire Safety and Health and Safety training In addition, we have increased the internal supportive resource available to our operations teams.

Serving alcohol responsibly

Our individual businesses and ultimately our business as a whole, rely on our ability to operate within the terms of our licences and the law and, as a responsible operator, we are determined to build, promote and maintain a culture of responsible retailing across the Company.

Our Alcohol and Social Responsibility policy promotes good practice in the responsible retailing of alcohol through our employee training, safe operational practices and responsible pricing and promotions.

We have produced a Prevention of Underage Drinking policy, which includes our use of Challenge 21. This forms a fundamental part of our employee training programme and includes regular refresher training to help ensure that our retail teams are fully aware of their licensing responsibilities and not serving alcohol to anyone underage.

We do not operate any 24 hour licences.



As part of our commitment to promote a responsible approach to retailing alcohol, we support and work in partnership with a number of organisations including Drinkaware Trust, Pubwatch, Best Bar None, the British Institute of Innkeeping Awarding Body (BIIAB) and the Association of Licensed and Multiple Retailers (ALMR).

We encourage our brands to promote responsible drinking messages, where appropriate, to our guests through our websites, social media pages and in-house promotional materials.

Working with us



Serving with pride, since 1898

Our strategy (page 16) includes recruiting, retaining and developing engaged people who deliver excellent service for our guests. With over 100 years' experience in the hospitality industry, we offer our current and future employees a huge range of career opportunities. Through our people strategy we are striving to attract, develop and retain the best talent. Everything we do as a business is built on the enthusiasm and professionalism of our people.



Our story is one of heritage, of passion, development and our people. This is a story which helps to bring our business and our people who work within it to life. To learn more visit: https://youtu.be/Mwky6Y6bUH8

Our Retail team member turnover has reduced from 78% in FY 2014 to 76% in FY 2015.

Listening to our people

Every year we circulate our employee engagement survey, 'Your Say' to understand better what is important to our employees. People told us they like the kind of work they do and can see where they add value to the business. Focus areas for improvement include the planning and implementation of future initiatives, ensuring appropriate resources are allocated and people living the PRIDE (Passion, Respect, Innovation, Drive, Engagement) values. Feedback showed the Orchid Managers responded very positively about the integration into Mitchells & Butlers.

Mitchells & Butlers is committed to providing equal opportunities for all of our employees. During the year the Board adopted a Diversity Policy, details of which are set out on page 46. Our employee Diversity Policy ensures that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.



Mitchells & Butlers achieved Top 100 Graduate Employer status in 2015 for the third year running and moved up the ranking against other hospitality employers.

The policy confirms that there will be no direct or indirect discrimination in respect of age, disability, religious belief, gender, sexual orientation, race, colour, marital status, political belief and nationality, or any other category defined by law in all aspects of employment including recruitment, promotion, and opportunities for training, pay and benefits.

	Men	Women
Company Directors	8	1
Other senior managers	38	15
All employees	21,298	22,034

Attracting the best talent

Last year we created c.1,400 new jobs by opening new retail sites across the UK.

Nurturing and developing our people

This year we have created new and robust high potential programmes which are aimed at helping develop our house managers to area managers, and the latter to retail directors which utilises our network of internal accredited coaches. Alongside this, we have also created an enhanced programme for graduates that accelerates them to area manager positions.

In 2015 we launched a new three year Hospitality Management Development programme which targets attracting 18 year olds and accelerates these candidates to higher level leadership positions. We currently have c.100 recruited to these roles, with a target for a further 250 young people during FY 2016. We also launched our new youth attraction strategy which targets young people from the age of 16 to gain transferable skills and build a sustainable career with us. Additionally, we are working in partnership with Believe in Young People, offering over 200 work experience places for 14 to 18 year olds who wish to explore a career in hospitality, with a natural lead into our apprenticeship scheme.

We pride ourselves on having accessible career pathways and around 1,500 learners have completed a vocational or apprenticeship programme with us this year. As part of this commitment we have enhanced all our skills-based apprenticeships, which now follow a comprehensive capability framework, and cover all levels to Foundation degree. This framework focuses on giving 16 to 24 year olds on-the-job skills complemented with credible transferable commercial skills, which take them from the equivalent of a GCSE qualification through to a degree level – a true alternative to the traditional academic education route.

Corporate social responsibility

continued

Rewarding and recognising our people

Pickaperk, our benefits platform, continues to be popular with our employees, with a spend on discounted goods of £1.3m in the last 12 months, a c.50% increase on the previous year.

Many of our employees continue to enjoy the 'Dine with Us' programme, where they can access their employee discount digitally and receive 20% off when they eat in one of our businesses. On two occasions this year the discount was raised to 33% as an additional 'thank you' to our employees.

c.12,800 employees have received an award recognising their service to the business. Awards are made to employees for achieving service milestones between one year and 45 years.

Our communities

We're committed to being a good neighbour by supporting our communities with both our time and expertise. By supporting our employees and businesses across a spectrum of charitable activity and fundraising, we continue to build strong relationships with our guests and neighbours and give back to the communities in which we trade.

76%

Our Retail team member turnover has reduced from 78% in FY 2014 to 76% in FY 2015

Over the last year through our Good Cause Fund, to help our pubs boost their local fundraising and our employee donations programme, we have raised or donated nearly £20,000 to a large number of deserving charities and groups.

During the year our businesses worked together to support the Marie Curie Great Daffodil Appeal. All of our restaurants and pubs sold daffodil pins during March and raised almost £19,000 for the charity, which will provide one full time nurse for a whole year or 940 hours of home nursing care. Since fundraising began in 2010 Mitchells & Butlers has donated over £157,000 to Marie Curie Cancer Care.

In FY 2015 our Heartland estate, including Sizzling Pubs, Crown Carveries, Oak Tree Pubs, and O'Neill's continued to raise funds for Cancer Research UK, and has raised £165,000 for the charity this year. As a result this brings the Heartland team fundraising total to a staggering £235,000 in less than two years.

Crown Carveries offer Armed Forces personnel – active or veteran, as well as all emergency service crews – 10% off their food bill all year round at their restaurants nationwide. The promotion has been run in conjunction with Defences Discount Service and Blue Light Cards, Savings for Life Savers.

Our restaurants and pubs once again supported the Royal British Legion Poppy Appeal, selling thousands of poppies and raising around £132,000 to support thousands of serving and ex-Service people.

Harvester restaurants have been fundraising for Make-A-Wish UK by participating in the Bake-A-Wish initiative. With over 200 restaurants on board, the brand successfully smashed its fundraising target of £20,000 by donating over £46,000 to the charity – making it the largest donation Harvester has ever made to Make-A-Wish.

Environmental awareness

We continue to successfully manage our energy, waste and water in a manner which is not only cost-effective for the business but reduces our impact on the environment.

Energy and greenhouse gas emissions

Our proactive management of energy consumption, procurement and carbon emissions continues to deliver significant benefits to our business against a backdrop of increasing food sales volume. During the 2014/15 tax year our greenhouse gas emissions per £m turnover reduced by 0.26% through a combination of behavioural change programmes and investment in making our buildings and equipment more energy efficient.

A full disclosure of our greenhouse gas emissions can be found on page 41.

Back of house lighting

We have successfully concluded the roll out of new energy-efficient fluorescent fittings to back of house areas across the estate. This has helped us to make considerable savings on energy consumption as well as improving lighting levels for our people.

Smart heating controls

We are in the process of rolling out smart heating controls to compatible sites that allow for better time and temperature control of our businesses. This is helping us to cut down on wasteful heating costs whilst ensuring customer comfort.

Orchid conversion sites

The installation of a range of energy efficiency technologies continues for our Orchid conversion sites including energy efficient LED lighting in trade areas and fluorescent fittings in back of house areas, 'intelligent' timers on the glycol chiller systems, free air cellar cooling and automated kitchen extraction where appropriate.

Water consumption

We have concluded the roll out of appliances to reduce water wastage in our toilets and have generated an annual consumption saving across the estate of 13.9 million litres.

We will build on the success of our CSR activities during 2015 and continue to develop our programmes and activities to further support our businesses, employees and guests in the future.



Financial review

On a statutory basis, profit before tax for the period was £126m (2014 £123m) on sales of £2,101m (2014 £1,970m).

The Group income statement discloses adjusted profit and earnings per share information that excludes exceptional items to allow a better understanding of the underlying trading of the Group. Adjusted earnings per share increased by 9.5% in 2015 to 35.7p.

At the end of the financial year, the total estate comprised 1,779 managed businesses and 55 franchised businesses, in the UK and Germany.

Changes in accounting policies

There have been no changes in accounting policies in the period.

Revenue

The Group's total revenues increased by 6.6% to £2,101m, as a result of growth in like-for-like sales, the full-year contribution of the 173 sites acquired from Orchid during the prior year, and the contribution from other single site acquisitions.



Annual Report and Accounts 2015

Financial review

continued

15.6%

Adjusted operating margins were 15.6% in FY 2015

Total like-for-like sales increased by 0.8%, with higher food sales of 1.9% but lower drink sales of -0.4%. Food sales growth was driven by increased volumes of 0.8% and average spend per head growth of 1.1%. Drink sales, by contrast, resulted from average spend per head growth of 2.4% offset by volume decline of 2.8%.

Like-for-like sales growth:	Week 1-32 FY 2015	Week 33-52 FY 2015	Week 1–52 FY 2015
Total	1.4%	_	0.8%
Food Drink	2.5% 0.3%	1.0% (1.4)%	1.9% (0.4)%

Operating margins

Adjusted operating margins for the year were 15.6%, 0.3 ppts below 2014. In the first half margins were behind last year by 0.8 ppts, with the Orchid head office remaining open and food sales across the business being driven by volume rather than spend per head.

Second half margins improved to 0.3 ppts higher than last year. A key factor in this was the closure of the Orchid head office as planned in April 2015, generating annual cost savings of £6m. The second half margin also benefited from food sales growth being driven by increased guest spend per head.

Adjusted operating profit for the year was £328m, 4.8% higher than 2014.

Internal rent

A regime of internal rents is in place to enable greater internal transparency around the performance of freehold and leasehold properties and external transparency concerning the performance of the operating and property functions. The operating performance is monitored on a regular basis through a system of profit reviews through all levels of the Group. Estate management is primarily monitored through the Portfolio Development Committee.

	Opera	ating	Prop	erty	To: before excep)	
	£m	vs LY %	£m	vs LY %	£m	vs LY %
Revenue	2,101	6.6%	_	_	2,101	6.6%
EBITDAR	493	3.8%	_	_	493	3.8%
External rent	(54)	(1.9%)	_	_	(54)	(1.9%)
Internal rent	(220)	(9.5%)	220	9.5%	_	_
EBITDA	219	(0.9%)	220	9.5%	439	4.0%
EBITDA %	10.4%	(0.8 ppts)	_	_	20.9%	(0.5 ppts)

Exceptional items

Exceptional items comprise two items: a £65m charge relating to the net movement in the property portfolio (2014 £37m); and a £7m net profit from the disposal of properties, including the release of a £5m accrual relating to prior period disposals.

Interest

Net finance costs of £144m were £3m higher than the prior year. The net pensions finance charge of £15m was £5m higher than in 2014, offset by a reduction in the annual interest charge on the Group's securitised borrowings.

For FY 2016 we expect the pensions finance charge to reduce slightly to £12m.

Taxation

The tax charge of £23m in the year represents an effective rate of 18.3% (2014 24.4%). The reduction in the effective rate is due to a lower standard rate of UK corporation tax plus the impact of adjustments from prior periods.

Earnings per share

Adjusted earnings per share were 35.7p, 9.5% higher than last year. After the exceptional items described above, basic earnings per share were 25.0p (2014 22.6p).

Cash flow and net debt

The cash flow statement below excludes £120m transferred from cash to other cash deposits (2014 £25m) and, in the prior year, £147m drawn down from a liquidity facility under the terms of the securitisation.

	FY 2015	FY 2014
	£m	£m
EBITDA before		
exceptional items	439	422
Working capital movement/		
non-cash items	48	18
Pension deficit contributions	(86)	(49)
	(00)	(12)
Cash flow from		
operations before		
exceptional items	401	391
Maintenance and		
infrastructure capex	(116)	(120)
Interest	(127)	(135)
Tax	(25)	(34)
Free cash flow before		
exceptional items	133	102
Expansionary capex	(46)	(42)
Orchid acquisition	(1)	(258)
Disposals and other	9	4
Operating exceptional	(6)	(5)
Net cash flow	89	(199)
Mandatory bond		
amortisation	(61)	(58)
Net cash flow after		
bond amortisation	28	(257)

4.3 times

Net debt was £1,870m at the year end, representing 4.3 times annualised EBITDA

£162m

Total capital expenditure was £162m in FY 2015

The business generated £439m of EBITDA in the year. Pension deficit contributions of £86m included a one-off contribution of £40m agreed as part of the last triennial valuation. After maintenance capital, interest and tax, £133m of free cash before exceptional items was generated by the business.

Net debt was £1,870m, representing 4.3 times annualised EBITDA (2014 4.5 times). Net debt within the securitisation was £1,895m and net cash held outside the securitisation was £25m.

Capital expenditure

Total capital expenditure was £162m, comprising £103m (2014 £94m) spent on amenity in the Group's restaurants and pubs, £13m on infrastructure projects (2014 £26m), and £46m on conversions and new site openings (2014 £42m).

The reduction in infrastructure projects was driven by IT expenditure, with the completion of several key projects in the year, notably the roll out of pub EPOS systems.

The blended EBITDA return on expansionary capital invested since FY 2012 was 18% (2014 16%). Given the varying nature of freehold acquisitions, leasehold acquisitions and conversions, the business reviews returns by category:

2015 Investment ^a	No. of sites	2012–2015 EBITDA ROI ^b
£10m	4	14%
£10m £23m	10 51	18% 22%
£43m	65	18%
	£10m £10m £23m	#10m 4 #10m 10 #23m 51

Notes:

- a. Capital expenditure relating to projects completed and opened during the period.
- b. Orchid sites included post-conversion.

Included in the conversions above are 41 Orchid sites converted to our brands and formats. A further 10 have been completed since year end. The Orchid sites which have not been converted are now part of our Heartland estate. The converted Orchid sites continue to trade well.

Property

A red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuers, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall portfolio value has fallen by £40m (2014 increase of £26m) reflecting a £65m exceptional charge in the income statement and a £25m increase in the revaluation reserve.

Pensions

The Company continues to make pensions deficit payments based on the schedule of contributions agreed as part of the triennial valuations at 31 March 2013, based on an assessed funding shortfall at that time of £572m (March 2010 valuation £400m). The discounted value of the minimum funding requirement agreed as part of the revised schedule of contributions is recognised in the balance sheet at £350m (FY 2014 £425m).

Dividends

With regard to recent performance and confidence in future prospects for the business, together with the agreement reached with the pension trustees as a part of the 2013 triennial settlement, the Directors recommend the payment of a dividend of 5p per share to shareholders on the register as at 4 December 2015, to be paid on 9 February 2016.

This payment represents the final element only of a total annual payout that is anticipated to be split one third at the interim stage and two thirds at final. We intend to adopt a progressive dividend policy.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 19 January 2016.

Responsibility statement

We confirm to the best of our knowledge:

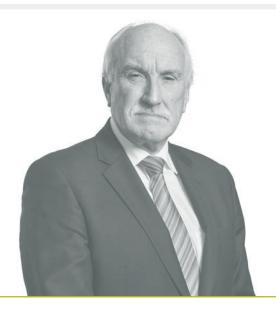
- The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- The Business Review, Financial Review and Risks and Uncertainties sections, which are incorporated into the Directors' report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 23 November 2015 and is signed on its behalf by:

Tim JonesFinance Director



Chairman's introduction to Governance



One of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for more than 44,000 employees and maintain the highest possible standards of corporate governance.

Bob Ivell Chairman

Dear fellow shareholder

It gives me great pleasure to take this opportunity to update you on our progress in corporate governance over the past year.

One of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for more than 44,000 employees and maintain the highest possible standards of corporate governance. The Board continues to monitor developments in corporate governance and reporting regulations. The Strategic report on pages 2 to 33 includes the Group's strategy, progress and performance for the year.

We continue to benefit from a stable Board. During the year the Non-Executive Directors reviewed the leadership of the Company and on 22 September 2015, the Company announced that Phil Urban, who joined the Group as Chief Operating Officer in January 2015, would assume the role of Chief Executive as Alistair Darby stepped down and resigned from the Board and left the Company, after three years in the role. Phil Urban is a strong leader with industry experience and a proven track record of operational delivery, who the Board are confident will build on the progress made over the past few years.

The Board recognises the significant contribution made by Alistair as Chief Executive over the past three years, and is grateful to him for bringing the business to a stronger position and wishes him well in the future.

I am delighted to welcome Josh Levy to the Board as a nominated Director of Piedmont Inc. Josh was appointed to the Board on 13 November 2015, in place of Douglas McMahon who stepped down on the same date. We look forward to working with Josh and our other nominated shareholder representatives on matters affecting the Group.

Our Non-Executive Directors continue to bring much experience, diversity and challenge to the Board and, in the last year, we have appointed Stewart Gilliland to the role of Senior Independent Director. My focus continues to be on maintaining a strong team, with a broad range of professional backgrounds and skills to drive further improvements where possible.

In line with the best practice recommendations of the UK Corporate Governance Code, last year we committed to carrying out an externally facilitated review of the Board's effectiveness and you can read the results of this on page 48. This dealt with focus areas of the 2014 review, and also looked at Board composition.

The remainder of this report contains the narrative reporting required by the UK Corporate Governance Code, the Listing Rules and the Disclosure and Transparency Rules. I hope that you find this report to be informative and helpful in relation to this important topic.

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team via our Investor Roadshow programme. I would like to encourage shareholders to attend our Annual General Meeting, details of which are set out in the separate Notice of AGM sent out with this Annual Report. Following the success of our Retail Support Centre in Birmingham as a venue for our 2015 AGM, we intend to use the same facility for the 2016 AGM and we look forward to welcoming you, where I hope you will take the opportunity of meeting our Executive and Non-Executive Board Directors.

I look forward to the year ahead, confident in the knowledge that the Company is led by a highly competent, professional and motivated team. I also look forward to the support of you, our shareholders, as our senior management team continues to focus on driving future profit growth and creating additional shareholder value.

Bob Ivell Chairman

Board of Directors

A strong team with the right experience.



1. Bob Ivell



2. Phil Urban



3. Tim Jones



4. Stewart Gilliland



5. Eddie Irwin



6. Josh Levy



7. Ron Robson



8. Colin Rutherford



9. Imelda Walsh

1. Bob Ivell, aged 63

Non-Executive Chairmanbc

Appointed as Interim Non-Executive Chairman in July 2011, Bob became Executive Chairman in October 2011 and reverted to Non-Executive Chairman in November 2012. He has over 30 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently Non-Executive Chairman of Carpetright plc, Senior Independent Director of Britvic plc and a Non-Executive Director of Charles Wells Limited. He was previously Senior Independent Director of AGA Rangemaster Group plc and a main Board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Chairman of Park Resorts and of Next Generation Clubs and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee.

2. Phil Urban, aged 52 Chief Executived

Phil joined Mitchells & Butlers in January 2015 as Chief Operating Officer and became Chief Executive in September 2015. Phil was previously Managing Director at Grosvenor Casinos, a division of Rank Group and Chairman of the National Casino Forum. Prior to that, he was Managing Director for Whitbread's Pub Restaurant division, and for Scottish & Newcastle Retail's Restaurants and Accommodation Division. Phil has an MBA and is a qualified management accountant (CIMA).

3. Tim Jones, aged 52 Finance Directord

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

4. Stewart Gilliland, aged 58 Senior Independent Directorabo

Appointed as an independent Non-Executive Director in May 2013 and as Senior Independent Director in February 2015. Stewart was Chief Executive Officer of Muller Dairy (UK) Limited until 2010 and prior to that held senior management positions in InBev SA, Interbrew UK Limited and Whitbread plc. He is currently Chairman of Booker Group Plc and a Non-Executive Director of Sutton and East Surrey Water plc, Tulip Group Limited, Nature's Way Foods Limited, C&C Group plc and Vianet Group Plc.

5. Eddie Irwin, aged 56 Non-Executive Directorabc

Appointed as a Non-Executive Director in March 2012, Eddie is a nominee of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. Eddie is Finance Director of Coolmore, a leading thoroughbred bloodstock breeder with operations in Ireland, the USA and Australia and a Non-Executive Director of Grove Ltd, the holding company of Barchester Healthcare Limited. He is a Fellow of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators.

6. Josh Levy, aged 25 Non-Executive Director

Appointed a Non-Executive Director in November 2015, Josh works in the Investment Banking Division of Investec Bank plc and holds an MSc and a BA (Hons) from the University of Nottingham. Josh is a nominated shareholder representative of Piedmont Inc.

7. Ron Robson, aged 52 Deputy Chairmanabo

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

8. Colin Rutherford, aged 56 Independent Non-Executive Directorabc

Appointed as an independent Non-Executive Director in April 2013, Colin is currently Chairman of Brookgate Limited and Teachers Media plc. He was formerly Executive Chairman of MAM Funds plc and Euro Sales Finance plc amongst various other public and private companies in the UK and overseas. Colin is a member of the Institute of Chartered Accountants of Scotland and has directly relevant corporate finance experience in both the leisure and hospitality industries. Colin is Chair of the Audit Committee.

9. Imelda Walsh, aged 51 Independent Non-Executive Directorabc

Appointed as an independent Non-Executive Director in April 2013, Imelda is a Non-Executive Director, and Chair of the Remuneration Committee of William Hill plc, Mothercare plc and FirstGroup plc. She was a Non-Executive Director, and Chair of the Remuneration Committee, of Sainsbury's Bank plc from 2006 to 2010. She has held senior Executive roles at J Sainsbury plc, where she was Group HR Director from March 2004 to July 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. Imelda is Chair of the Remuneration Committee.

Key

- a. Member of the Audit Committee
- b. Member of the Remuneration Committee
- c. Member of the Nomination Committee d. Member of the Executive Committee

Directors' report

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

- Determining the overall business and commercial strategy
- Identifying the Company's long-term objectives
- Reviewing the annual operating budget and financial plans and monitoring performance in relation to those plans
- Determining the basis of the allocation of capital
- Considering all policy matters relating to the Company's activities including any major change of policy



For the Company's latest financial information go to: www.mbplc.com/investors

The Directors present their report and the audited financial statements for the year ended 26 September 2015. The Business review of the Company and its subsidiaries is given on pages 24 and 25 which, together with the Corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 18 to 21 and 47 and 48, and details about financial instruments are shown in note 4.4 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on page 22.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 2 to 33 reflects the Directors' understanding of the requirement to provide a Strategic report.

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 or who becomes aware of it and any such responsibility or liability is expressly disclaimed.

Areas of operation

Throughout FY 2015 the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany.

Share capital

The Company's issued ordinary share capital as at 26 September 2015 comprised a single class of ordinary shares of which 412,520,626 shares were in issue and listed on the London Stock Exchange (27 September 2014 411,637,885 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association. Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 1,523,502 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 105. Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting specifies deadlines for exercising voting rights in relation to the resolutions to be put to the Annual General Meeting.

All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations and under the Articles of Association. In addition, pursuant to the Listing Rules of the Financial Conduct Authority,

Directors and certain officers and employees of the Group require the prior approval of the Company to deal in the ordinary shares of the Company.

Participants in the Share Incentive Plan ('SIP') may complete a Form of Instruction which is used by Equiniti Share Plan Trustees Limited, the SIP Trustee, as the basis for voting on their behalf.

During the year, shares with a nominal value of £75,401 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006. No securities were issued in connection with a rights issue during the year.

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

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 67 of the Report on Directors' remuneration.

Dividend

No Interim Dividend was paid during the year (2014 nil). The Board recommends a final dividend for the year ended 26 September 2015 of 5p per share to be paid on 9 February 2016 to shareholders on the register at close of business on 4 December 2015. This makes a total dividend for the year of 5p per share (2014 nil).

Interests in voting rights

As at the date of this report, the Company was aware of the following significant holdings of voting rights (3% or more) in its shares:

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	109,970,613	26.62	Direct holding
Elpida Group Limited	95,553,211	23.13	Direct holding
Smoothfield Holding Limited	17,936,260	4.34	Direct holding
Standard Life	24,457,974	5.92	Indirect holding

^{*} Using the total voting rights figure announced to the London Stock Exchange for 30 October 2015 of 413,142,799 shares.

Directors

Details of the Directors as at 23 November 2015 and their biographies are shown on pages 36 and 37. The Directors at 26 September 2015 and their interests in shares are shown on page 67. Alistair Darby resigned as a Director on 26 September 2015 and Phil Urban was appointed as a Director on 27 September 2015. Douglas McMahon, a nominated Director of Piedmont Inc., stepped down from the Board on 13 November 2015 and was replaced on the same date by Josh Levy, a new nominated Director of Piedmont Inc. There were no other changes to the Board of Directors during the year nor subsequent to the year end, up to the date of this report.

The Company is governed by its Articles of Association and the Companies Act 2006 and related legislation in relation to the appointment and removal of Directors. The powers of the Company's Directors are set out in the Company's Articles of Association.

In accordance with the Company's Articles of Association (which are in line with best practice guidance of the UK Corporate Governance Code), all the Directors will retire at the AGM. Phil Urban and Josh Levy offer themselves for election for the first time and all the other Directors offer themselves for re-election.

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.

The Company's two largest shareholders, Piedmont Inc. and Elpida Group Limited, have nominated representatives on the Board. Piedmont's appointment rights are formalised in a Deed of Appointment but there is no equivalent agreement in place between the Company and Elpida. The Elpida representative was appointed with the approval of the Board in March 2012. The Board has carefully considered whether it would be appropriate to enter into a formal agreement with Elpida that is similar to the existing agreement between the Company and Piedmont. Having taken into account the Financial Reporting Council's report of August 2014 'Towards Clear & Concise Reporting' and the views expressed previously by certain of the investor representative bodies, the Board considers that such an agreement would be merely one of form rather than substance and not in the interests of shareholders generally. As a result, the Board does not propose currently that the Company should enter into such an agreement with Elpida, and Elpida has not to date sought such an agreement. The Board considers that the Company is acting in accordance with good governance principles in working with our significant long-term shareholders towards our common goals and the achievement of the Company's strategy, with continued stability at Board level.

Directors' indemnity

As permitted by the Articles of Association, each of the Directors has the benefit of an indemnity, which is a qualifying third-party indemnity as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the tenure of each Director during the last financial year, and is currently in force. Such an indemnity was put in place on the appointment of each of Phil Urban and Josh Levy to the Board on 27 September 2015 and 13 November 2015 respectively. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors. No indemnity is provided for the Company's auditor.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders of the Company.

Conflicts of interest

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

Related party transactions

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

Change of control provisions

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

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

The trustee of the Company's SIP 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 in respect of any shares it holds or accept or reject an offer relating to shares in any way it sees fit, and it

may take all or any of the following matters into account: the long-term interests of beneficiaries, the non-financial interests of beneficiaries, the interests of beneficiaries in their capacity as employees or former employees, the interests of future beneficiaries and considerations of a local, moral, ethical, environmental or social nature.

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

Provisions which apply in the event of a takeover or reconstruction

Share plan	Provision in the event of a takeover
Performance Restricted Share Plan and 2013 Performance Restricted Share Plan	Awards vest pro rata to performance and time elapsed and lapse six months later
Short Term Deferred Incentive Plan and 2013 Short Term Deferred Incentive Plan	Bonus shares may be released or exchanged for shares in the new controlling company
Sharesave Plan and 2013 Sharesave Plan	Options may be exercised within six months of a change of control
Share Incentive Plan and 2013 Share Incentive Plan	Free shares may be released or exchanged for shares in the new controlling company

Employment policies

The Group employed an average of 44,492 people in FY 2015 (FY 2014 41,514). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

Our policies and procedures fully support our disabled colleagues. We take active measures to do so via:

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

The Group is responsive to the needs of its employees. As such, should any employee of the Group become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their environment where possible, in order to keep the employee with the Group.

Employee engagement

Mitchells & Butlers engages with its employees continuously and in a number of ways to suit their different working patterns. This includes:

- line manager briefings;
 - communications forums and roadshows held by functions or brands across the Company;
- a dedicated intranet for the Retail Support Team;
- a dedicated portal, 'OurHub', for retail employees;
- email news alerts;
- focus groups;
 - weekly bulletins specifically targeted at retail house managers and mobile workers;
- employee social media groups; and
- a monthly magazine poster, Frontline News, for the retail estate.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants and pubs and pulse surveys for all employees to the Mitchells & Butlers annual Business Forum. Business Forum representatives collect questions from employees across the Company and put them to members of the Executive Committee. The questions and answers are published in Frontline News and online.

Directors' report

continued

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

Our retail teams complete compulsory bespoke induction Food and Fire, Heath & Safety training via e-Learning. This is at an equivalent level to the NVQ II. The retail management teams complete an additional classroom-based NVQ III equivalent course.

Mitchells & Butlers operates the Challenge 21 policy in all our businesses across England and Wales. The policy requires that any guest attempting to buy alcohol who appears under the age of 21, must provide an acceptable form of proof of age ID to confirm that they are over 18, before they can be served. This policy forms part of our regular training for our employees on their responsibilities for serving alcohol.

We also have a visual training library, which houses short training videos to share best practice tips, health and safety guidance, kitchen operational advice and cooking skills.

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates four HMRC approved all-employee plans, which are the Sharesave Plan, the 2013 Sharesave Plan, the Share Incentive Plan and the 2013 Share Incentive Plan (which include Partnership shares). The Company also operates four other plans on a selective basis, which are the Performance Restricted Share Plan, the 2013 Performance Restricted Share Plan, the Short Term Deferred Incentive Plan and the 2013 Short Term Deferred Incentive Plan. All remaining options under the Executive Share Option Plan were exercised during FY 2015 and the scheme has now expired, both for grant and exercise purposes. Further details on the plans are set out in the Report on Directors' remuneration.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. No shares in the Company were purchased by the employee benefit trust during FY 2015.

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 2016 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £150m of unsecured committed bank facilities. Further information regarding these arrangements is included in note 4.2 to the financial statements on page 94. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury.

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

Going concern

The financial statements which appear on pages 70 to 115 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's financing is based on securitised debt and unsecured bank facilities and, within this context, a robust review has been undertaken of projected performance against all financial covenants. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See section 1 of the financial statements on page 79.

Annual General Meeting

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

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM

Post-balance sheet events

There are no post-balance sheet events to report.

Disclosure of information to auditor

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

Greenhouse gas ('GHG') emissions statement

The Group generates GHG emissions throughout its estate of bars and restaurants for heating, cooling, lighting and catering, including the refrigeration and preparation of food and drink.

GHG emissions per £m turnover were reduced by 0.26% during the 2014/15 tax year in comparison to 2013/14. This has been achieved despite an increase in like-for-like food sales volumes and a shift towards longer trading hours by carrying out a mix of behavioural change programmes, including our first ever 'Energy Week', supplemented by ongoing investment in increasing the energy efficiency of our buildings and equipment.

Assessment parameters	
Assessment year	2014/15 Tax Year
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during the 2014/15 tax year were included
Scope	General classifications of GHG emissions scopes based on the GHG protocol and ISO14064-1:2006 within the context of the Group's operations are as follows:
	Scope 1 – direct GHG emissions from sources that are owned or controlled by the Company, eg fuel combustion of varying types, occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience.
	Scope 2 – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling.
	Scope 3 – indirect emissions as a consequence of the activities of the Company, but occurring from sources not owned or controlled by the Company.
	This assessment focuses on scope 1 and 2 emissions only (scope 3 is optional under the current regulations).
Consistency with the financial statements	Scope 1 and 2 emissions are reported for the 2014/15 tax year and the 2013/14 tax year to retain consistency with reporting of our carbon emissions under the Carbon Reduction Commitment ('CRC') Energy Efficiency Scheme.
	Scope 1 and 2 emissions from sites with 'landlord supplies' are not included in the CRC submission.
	Orchid sites are included as their acquisition was completed during the 2014/15 tax year. These sites were omitted from the 2014 GHG emissions statement.
	Franchise sites are excluded as they are responsible for arranging and paying for their own energy.
	ALEX sites in Germany are included. Emissions are based on UK average emissions multiplied by the number of ALEX sites.
Exclusions	Scope 1 – Vehicle fleet emissions are excluded as they have been calculated to account for <1% total emissions which falls below the materiality threshold.
	Scope 1 – Fugitive emissions within refrigeration and cooling equipment are not included as detailed records are not yet held.
	Outside of scope – Logs are 'outside of scope' because the scope 1 impact of these fuels has been determined to be a net '0'. However, the CO_2 e value of logs has been calculated to be <1% and would be excluded in any case as it falls below the materiality threshold.
Emission factor data source	Defra conversion factors have been used where appropriate. Carbon emission conversion factors that relate to the calendar year within which the greatest portion of the data falls have been applied. As such, 2014 factors have been applied for the 2014/15 tax year and 2013 factors have been applied for the 2013/14 tax year.
Assessment methodology	Defra Environmental Guidelines 2013.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Intensity threshold	Emissions are stated in tonnes CO_2 e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.
Target	Emissions during the 2013/14 tax year are provided for comparative purposes.

Greenhouse gas	2013/14		2014/15		Change from previous year		
emissions source	(tCO ₂ e)	$(tCO_2e/£m)$	(tCO ₂ e)	(tCO ₂ e/£m)	(tCO₂e)	(tCO ₂ e/£m)	%
Scope 1	89,893	47.3	95,771	47.7	5,878	0.4	0.85%
Scope 2	207,591	109.1	217,461	108.3	9,870	(0.8)	(0.73)%
Statutory total (Scope 1 and 2)*	297,484	156.4	313,232	156.0	15,748	(0.4)	(0.26)%

 $^{^{\}ast}$ Statutory carbon reporting disclosures required by Companies Act 2006.

By order of the Board

Greg McMahon Company Secretary and General Counsel 23 November 2015

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

Responsibility statement

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Signed by

Tim Jones Finance Director23 November 2015

Corporate governance statement

Corporate governance statement

The Board is responsible for ensuring that the activities of the Mitchells & Butlers Group and its various businesses are conducted in compliance with the law, regulatory requirements and rules, good practices, ethically and with appropriate and proper governance and standards. This includes reviewing internal controls, ensuring that there is an appropriate balance of skills and experience represented on the Board and compliance with the 2012 UK Corporate Governance Code (the 'Code'), which is issued by the Financial Reporting Council and which is available at www.frc.org.uk, and maintaining appropriate relations with shareholders.

A new edition of the Code was published in September 2014 and applies to reporting periods beginning on or after 1 October 2014. As our 2015 reporting period began before this date, we are continuing to report against the 2012 edition of the Code, although the Board has adopted some of the new provisions in the revised code earlier than required.



The latest financial information for Mitchells & Butlers and its group of companies is included in the 2015 Annual Report and Accounts (of which this corporate governance statement forms part) and which are available online at www.mbplc.com/investors

This corporate governance statement sets out our report to shareholders on the status of our corporate governance arrangements.



Bob Ivell Chairman

The Board is committed to high standards of corporate governance. I am delighted to be able to report that the Board considers that the Company has complied throughout the year ended 26 September 2015 with all the provisions and best practice guidance of the Code except those in respect of Board composition, constitution of the Board Committees and the appointment of a Senior Independent Director, although this latter point was addressed in February 2015 when Stewart Gilliland was confirmed as Senior Independent Director (a position he continues to hold). This appointment removed that issue as a matter of non-compliance. This corporate governance statement addresses the small number of areas where, for reasons specific to Mitchells & Butlers, there are divergences from the Code as described below.

The Audit Committee report and Nomination Committee report which are set out on pages 49 to 51 and 45 and 46 respectively of the Annual Report also form part of this corporate governance statement and they should all be considered together.

Bob Ivell Chairman

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the Code. There are, however, a small number of areas where, for reasons specifically related to the Company, the detailed provisions of the Code were not fully complied with. These areas are kept under regular review. A fundamental aspect of the Code is that it contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, the Code specifically recognises the concept of 'Comply or Explain' in relation to divergences from the Code.

Compliance with the Code

Except for the matters which are explained below (in line with the 'Comply or Explain' concept), the Company complied fully with the principles and provisions of the Code throughout the financial year in respect of which this statement is prepared (and continues to do so as at the date of this statement).

Explanation for non-compliance with parts of the Code During the year, there were five divergences from full compliance with the Code as set out below by reference to specific paragraphs in the Code:

A.4.1 Senior Independent Director

The role of Senior Independent Director remained vacant until the appointment of Stewart Gilliland in February 2015. The Company is now compliant with this provision. In this role, during the year Mr Gilliland conducted, in conjunction with the other two independent Non-Executive Directors, an evaluation of the Chairman's performance and reported back on the principal conclusions of that evaluation to the Chairman.

B.1 (including B.1.2 Composition of the Board) and B.2.1, C.3.1 and D.2.1 Constitution of Committees

The Board was not constituted in full compliance with the Code, as it had three independent Non-Executive Directors, out of a total of six Non-Executive Directors (not including the Chairman for this purpose), and two Executive Directors. Accordingly, Provision B.1.2, which requires that at least half of the Board be made up of independent Non-Executive Directors (excluding the Chairman), was not complied with. This also had consequential implications on the composition of the standing Board Committees.

While the Board does not comply fully with the requirement for at least half of its members to be independent, it recognises and values the presence of representatives of its major shareholders on the Board and welcomes the interest shown by them in the Company as a whole. The Board will continue to work closely with the representatives of its major shareholders to further the interests of the Company.

The possibility of appointing a further independent Non-Executive Director remains a matter for the Nomination Committee to review and is considered regularly. It has also been addressed in the 2015 externally-facilitated Board Effectiveness Review. Further details are given on page 48. Throughout FY 2015, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the Code. The Committees are not fully compliant with the relevant provisions of paragraphs B.2.1, C.3.1 and D.2.1 of the Code in that they include the presence of representatives of major shareholders. Nevertheless, the Board values the contribution of those shareholder representatives on those Committees, does not consider this to be an impediment to good governance and looks forward to continuing to work with them on matters affecting the Group and its activities in the future.

The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 49 to 51. 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 38 to 41.

Corporate governance statement

continued

Board composition

Throughout the year, the Board comprised nine Directors. A table listing the composition of the Board during the year is set out opposite.

The Board

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

During FY 2015 there were 11 scheduled Board meetings. There were also four meetings of the Audit Committee, four meetings of the Remuneration Committee and two meetings of the Nomination Committee. The table opposite shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Where a Director was unable to attend a meeting (whether of the Board or one of its Committees), they were provided with all the papers and information relating to that meeting and were able to discuss issues arising direct with the Chairman of the Board or Chair of the relevant Committee. In addition, the Board members meet more informally approximately five times a year and the Chairman and the Non-Executive Directors meet without the Executive Directors twice a year.

There are 10 Board meetings currently planned for FY 2016.

The Company Secretary's responsibilities include ensuring good information flows to the Board and between senior management and the Non-Executive Directors. 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. The Company Secretary facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements and including guidance on the requirements of, and Directors' duties in connection with, the Code and the Companies Act 2006 as well as other relevant legislation. In FY 2015, the Company Secretary also co-ordinated the externally facilitated performance evaluation of the Board, details of the output of which are set out at page 48. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Directors who served	during th	e year		
Bob Ivell	11 (11)	_	4 (4)	2 (2)
Alistair Darby ¹	10 (11)	_	_	_
Stewart Gilliland	11 (11)	4 (4)	4 (4)	2 (2)
Eddie Irwin	11 (11)	4 (4)	4 (4)	2 (2)
Tim Jones	11 (11)	_	_	_
Douglas McMahon ²	10 (11)	_	_	_
Ron Robson ³	10 (11)	4 (4)	4 (4)	2 (2)
Colin Rutherford	11 (11)	4 (4)	4 (4)	2 (2)
Imelda Walsh	11 (11)	4 (4)	4 (4)	2 (2)

An additional Remuneration Committee meeting was held in September 2015 which was outside the normal meeting schedule noted above. All members attended and further details are set out on page 62.

Where a Director was prevented from attending a meeting due to travel difficulties or clashes with other business commitments, in each case the Director concerned provided comments on the matters to be considered to the Chairman, another Director or the Company Secretary.

- 1. Mr Darby did not attend the final Board meeting of the year on 25 September 2015 as it occurred after the Company had announced on 22 September 2015 that he would be stepping down from the Board on 26 September 2015.
- Mr McMahon did not attend one Board meeting during the year but Mr Robson, the other representative to the Board nominated by Piedmont Inc., did attend that meeting.
- Mr Robson did not attend one Board meeting during the year but Mr McMahon, the
 other representative to the Board nominated by Piedmont Inc., did attend that meeting.

Directors

The following were Directors of the Company during the year ended 26 September 2015:

		Date	Date of				
		appointed	change of role				
Directors who serv	Pirectors who served during the year						
Bob Ivell	Independent Non-	09/05/11	14/07/11				
	Executive Director ¹						
	Interim Chairman ¹	14/07/11	26/10/11				
	Executive Chairman	26/10/11	12/11/12				
	Non-Executive	12/11/12	_				
	Chairman						
Alistair Darby ²	Chief Executive	08/10/12	26/09/15				
Stewart Gilliland	Independent	23/05/13	_				
	Non-Executive Director						
	Senior Independent	02/02/15	_				
	Director						
Eddie Irwin ³	Non-Executive Director	21/03/12	_				
Tim Jones	Finance Director	18/10/10	_				
Douglas McMahon ⁴	Non-Executive Director	15/10/10	_				
Ron Robson ⁴	Non-Executive Director	22/01/10	_				
	Deputy Chairman	14/07/11	_				
Colin Rutherford	Independent	22/04/13	_				
	Non-Executive Director						
Imelda Walsh	Independent	22/04/13					
	Non-Executive Director		_				

- 1. Independent while in the role specified.
- 2. Resigned 26 September 2015.
- 3. Nominated shareholder representative of Elpida Group Limited.
- Nominated shareholder representative of Piedmont Inc.

On 27 September 2015, Phil Urban was appointed to the Board and as Chief Executive Officer of the Company.

On 13 November 2015, Douglas McMahon stepped down from the Board and Josh Levy was appointed to the Board. Josh Levy is a nominated shareholder representative of Piedmont Inc.

Throughout the year, and as at the date of this statement, the Board was made up of eight male and one female members.

The Executive Directors have service contracts which are summarised on page 60. The Chairman and each of the Non-Executive Directors have letters of appointment. Copies of the respective service contracts

or letters of appointment of all the Board are on the Company's website. In addition, they 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.

All the Company's Directors are required to stand for annual re-election (or, in the case of Philip Urban and Josh Levy, election for the first time following their appointment) at the Company's Annual General Meeting in accordance with the Company's Articles of Association. Their biographical details as at 23 November 2015 are set out on page 37, including their main commitments outside the Company. Further information is set out below.

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

Division of responsibilities between Chairman and Chief Executive In accordance with provision A.2.1 of the Code, the roles of Chairman and Chief Executive should not be exercised by the same individual.

The division of responsibilities between the Chairman and Chief Executive are clearly established and set out in writing and agreed by the Board. In particular, it has been agreed in writing that the Chairman shall be responsible for running the Board and shall provide advice and assistance to the Chief Executive. He also chairs the Nomination Committee, is a member of the Remuneration Committee and attends, by invitation, meetings of the Audit Committee.

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 46) and attends the Nomination, Remuneration and Audit Committee by invitation, not necessarily for the entirety of such meetings depending upon the subject matter.

All other Executive Directors (currently just the Finance Director) and all other members of the Executive Committee report to the Chief Executive.

Chairman

The Chairman should, on appointment, meet the independence criteria set out in provision B.1.1 of the Code. Bob Ivell met these independence criteria on appointment.

Bob Ivell was appointed to the role of Executive Chairman on 26 October 2011 on the departure of the then Chief Executive and reverted to the role of Non-Executive Chairman on 12 November 2012.

The Chairman ensures that appropriate communication is maintained with shareholders. He ensures that all Directors are fully informed of matters relevant to their roles.

Chief Executive

Phil Urban was appointed Chief Executive on 27 September 2015 following the resignation on 26 September 2015 of Alistair Darby who had held the position of Chief Executive from 8 October 2012.

As indicated above, the Chief Executive has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Stewart Gilliland was appointed to the role of Senior Independent Director on 2 February 2015.

The Senior Independent Director supports the Chairman in the delivery of the Board's objectives and ensures that the views of all major shareholders and stakeholders are conveyed to the Board. Stewart Gilliland is available to all shareholders should they have any concerns if the normal channels of Chairman, Chief Executive or Finance Director have failed to resolve them, or for which such contact is inappropriate.

The Senior Independent Director also meets with Non-Executive Directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance. Further details of this review can be found on page 48.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board. Bob Ivell was considered to be independent upon his appointment on 9 May 2011 in that he was free from any business or other relationship with the Company which could materially influence his judgement and he continues to represent a strong source of advice and independent challenge. Since his appointment as Chairman on 14 July 2011 the independence test, as set out in the Code, is no longer applicable to his current position.

Ron Robson and Douglas McMahon were appointed to the Board as representatives of the Company's largest shareholder, Piedmont Inc., and were therefore not regarded as independent in accordance with the Code Their role was examined and commented on in the recent external Board evaluation, further details of which are given on page 48. Douglas McMahon stepped down from the Board on 13 November 2015, and was replaced by Josh Levy, who is also a nominated shareholder representative of Piedmont Inc.

Eddie Irwin has been appointed to the Board as a representative of the Company's second largest shareholder, Elpida Group Limited and is therefore not regarded as independent in accordance with the Code.

There are currently three independent Non-Executive Directors on the Board: Stewart Gilliland, Colin Rutherford and Imelda Walsh.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 63, the Non-Executive Directors received no remuneration from the Company during the year.

When Non-Executive Directors are considered for appointment, the Board takes into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

Board information and training

All Directors are briefed by the use of comprehensive papers circulated in advance of Board meetings and by presentations at those meetings, in addition to receiving minutes of previous meetings. Their understanding of the Group's business is enhanced by business specific presentations and operational visits to the Group's businesses. Separate strategy meetings and meetings with senior Executives are also held throughout the year.

The training needs of Directors are formally considered on an annual basis and are also monitored throughout the year with appropriate training being provided as required.

Committees

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

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 49 to 51 which is incorporated by reference into this statement.

Remuneration Committee

Details of the Remuneration Committee and its activities during the year are included in the Report on Directors' remuneration on pages 52 to 69.

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.

Corporate governance statement

continued

During the year, the Nomination Committee considered the succession to the role of Chief Executive which was announced on 22 September 2015 and took effect on 27 September 2015. The Nomination Committee also considered the composition of the Board and, following the year end, has assessed the outcome of the external Board's effectiveness review which was carried out during the financial year now reported on.

The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board.

Board Diversity Policy

During 2015 the Nomination Committee recommended, and the Board approved, a Board Diversity Policy. The key statement and objectives of that policy are as follows:

Statement:

The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Objectives:

- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship.
 All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report and the UK Corporate Governance Code, provision B.2.4. These will be reviewed on an annual basis.

Progress against the policy:

The Board continues to monitor progress against this policy. In terms of Board diversity, the appointment of Imelda Walsh in 2013 brought the proportion of women on the Board to 11%. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience. Further details regarding future appointments to be made to the Board are detailed in the 2015 external Board Evaluation Report referred to on page 48.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of Mitchells & Butlers plc, can be found in the corporate social responsibility section on pages 26 to 30.

A detailed description of the duties of the Nomination Committee is set out within its terms of reference which can be viewed at www.mbplc.com/investors/businessconduct/boardcommittees/

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

	Appointment date	Member at 26/09/15
Bob Ivell (Chair)	11/07/13	Υ
Stewart Gilliland	11/07/13	Υ
Eddie Irwin	11/07/13	Υ
Ron Robson	11/07/13	Υ
Colin Rutherford	11/07/13	Υ
Imelda Walsh	11/07/13	Υ

During the year, the Company did not comply with provision B.2.1 of the Code because, as explained earlier in this statement, the Nomination Committee was not comprised of a majority of independent Non-Executive Directors. The Committee is not fully compliant in that it includes the presence of representatives of major shareholders.

Nevertheless, for the reasons already stated, the Board does not consider this to be an impediment to good governance and looks forward to continuing to work constructively with the representatives nominated by its major shareholders in relation to all the matters and issues to be addressed by the Nomination Committee (and the Board) in connection with the Company in the future.

Executive Committee

The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior Executives, namely Catriona Kempston (Marketing Director), Gary John (Group Property Director), Susan Martindale (Group HR Director) and Greg McMahon (Company Secretary and General Counsel).

The Executive Committee meets at least every four weeks and has day-to-day responsibility for the running of the Group's business. It develops the Group's strategy and annual revenue and capital budgets for Board approval. It reviews and recommends to the Board any significant investment proposals. This Committee monitors the financial and operational performance of the Group and allocates resources within the budgets agreed by the Board. It considers employment issues, ensures the Group has an appropriate pool of talent and develops senior management manpower planning and succession plans. The actions arising from the Executive Committee are supplied to the Board for information in order that Board members can keep abreast of operational developments.

Phil Urban has ultimate responsibility for employment related issues and he also oversees matters relating to human rights including the future implementation of the Modern Slavery Act throughout the Group.

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 an Executive 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.

Treasury Committee

The treasury operations of the Mitchells & Butlers Group are operated on a centralised basis under the control of the Group Treasury department. Although not a formal Board Committee, the Treasury Committee, which reports to the Finance Director but is subject to oversight from the Audit Committee and, ultimately, the Board, has day-to-day responsibility for:

- liquidity management;
- investment of surplus cash;
- funding, cash and banking arrangements;
- interest rate and currency risk management;
- guarantees, bonds, indemnities and any financial encumbrances including charges on assets; and
- relationships with Banks and other market counterparties such as credit rating agencies.

The Treasury Committee also works closely with the financial accounting department to review the impact of changes in relevant accounting practices and to ensure that treasury activities are disclosed appropriately in the Company's accounts.

The Board delegates the monitoring of treasury activity and compliance to the Treasury Committee. It is responsible for monitoring the effectiveness of treasury policies and making proposals for any changes to policies or in respect of the utilisation of new instruments. The approval of the Board, or a designated committee thereof, is required for any such proposals.

Independent advice

Members of the Board may take independent professional advice in the furtherance of their duties and the Board has agreed a formal process for such advice to be made available. Members of the Board also have access to the advice and services of the Company Secretary and General Counsel, the Company's legal and other professional advisers and its external auditor. The terms of engagement of the Company's external advisers and its external auditor are regularly reviewed by the Company Secretary and General Counsel.

Code of Ethics

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers including the Bribery Act 2010;
- 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 in advance by appropriate senior management, with a presumption against its acceptance.

The Company takes a zero tolerance approach to bribery and has developed an extensive Bribery Policy. The Ethics Code requires employees to comply with the Bribery Policy.

The Company also offers an independently administered, confidential whistleblowing hotline for any employee wishing to report any concern that they feel would be inappropriate to raise with their line manager. All whistleblowing allegations are reported to and considered by the Executive Committee and a summary report (with details of any major concerns) is supplied to, and considered by, the Audit Committee at each meeting.

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings. The Board has noted the provisions of the Modern Slavery Act in relation to supply chain management and will be taking steps during FY 2016 to comply with its disclosure requirements by the end of that financial year.

Directors' training includes environmental, social and governance ('ESG') matters and the Company Secretary is responsible for ensuring that Directors are made aware of and receive regular training in respect of these important areas. The Chief Executive, Phil Urban, is ultimately responsible for ESG matters. The Board is responsible for the Company's internal risk management system, in respect of which more details can be found in the 'Risks and uncertainties' section of this report, and in the following section of this statement.

Internal control and risk management

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

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

- Processes, including monitoring by the Board, in respect of:
- i. financial performance within a comprehensive financial planning, accounting and reporting framework;
- ii. strategic plan achievement;
- iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
- iv. consumer insight data and actions to assess the evolution of brands and formats to ensure that they continue to be appealing and relevant to the Group's guests.
- An overall governance framework including:
 - clearly defined delegations of authority and reporting lines;
- ii. a comprehensive set of policies and procedures that employees are required to follow; and
- iii. the Group's Ethics Code, in respect of which an annual confirmation of compliance is sought from all corporate employees.
- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board, Audit Committee and Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met four times during FY 2015, is chaired by the Company Secretary and General Counsel and comprises Executive Committee members and other members of senior management from a cross-section of functions. Its primary responsibilities are to:
- advise the Executive Committee on the Company's overall risk appetite and risk strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments:
- advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the overall risk appetite and risk strategy;
- iii. promote the management of risk throughout the organisation;
- iv. review and monitor the Company's capability and processes to identify and manage risks;
- v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
- vi. where mitigation plans are inadequate, recommend improvement actions.

Corporate governance statement

continued

The Group's risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 18 to 21.

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

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

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

In accordance with the Code, during the year the Audit Committee completed (and reported to the Board its conclusions in respect of) its annual review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, in the opinion of the Audit Committee, the review did not indicate that the system was ineffective or unsatisfactory and to the extent that weaknesses in internal controls were identified, the Audit Committee confirmed that necessary remedial action plans were in place. The Audit Committee is not aware of any change to this status up to the date of 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 broker, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved. During the financial year, the Company carried out a full tender process in respect of its insurance brokerage adviser and, following the appointment of a new broker, made a full market presentation to new and existing insurers. The output of that process was the development and implementation of a new insurance programme with current market coverage levels with high quality insurers.

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company regularly updates the market on its financial performance, at the half year and full year results in May and November respectively, and by way of other announcements as required. The content of these updates is available by webcast on the Company's website, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of meetings with its larger shareholders which provides an opportunity to discuss, on the basis of publicly available information, the progress of the business.

On a more informal basis, the Chairman, Chief Executive and the Finance Director regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders. During the year the Chairman, accompanied by the Head of Investor Relations, held governance meetings with two institutional investors and also offered a series of telephone discussions relating to Company matters.

The AGM provides a useful interface with shareholders, many of whom are also guests in our pubs, bars and restaurants. 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.

Board effectiveness evaluation and Chairman's evaluation and appraisal

In line with the best practice recommendations of the Code, in FY 2014 we committed to carrying out an externally facilitated review of the Board's effectiveness. During FY 2015, the Board carried out an externally-facilitated self-evaluation review. This was facilitated by Mrs Ffion Hague of Independent Board Evaluation. The conclusions of that review were reported on to the Board by the facilitator. In addition, the Chairman received individual reports from the facilitator as to the contribution and effectiveness of each of the Board members, all of whom participated in the review. The review also included consultation with certain senior managers and external advisers in order to ensure a coherent and comprehensive view could be formed.

The Board noted the observations made as a consequence of the review. In particular, it was reported that the Board is, overall, working effectively and has certainly improved as a functioning Board over recent years, particularly as a consequence of the appointment of credible, independent Non-Executive Directors and, more recently, the identification and nomination of a Senior Independent Director. It was also noted that the Board composition, although of an unusual structure due to the representation of the two largest shareholders, nonetheless works well.

The Board considered carefully the recommendations which arose from that review. Those recommendations related to suggested improvements to some of the Board meeting processes (which have now been implemented), suggested improvements to the Board's succession and strategic planning processes and the recruitment of a further independent Non-Executive Director.

As indicated earlier in this statement, the Company appointed Stewart Gilliland to the role of Senior Independent Director on 2 February 2015. Accordingly, the annual appraisal of the Chairman's performance was conducted by Stewart Gilliland with the independent Non-Executive Directors (without the Chairman present) and the conclusions fed back to the Chairman. The principal conclusions of that review were that Mr Ivell's performance remains highly constructive and that the level of Mr Ivell's involvement was of benefit to the Company noting that the relationship between the Chairman and CEO is critical. Annual reviews of the Chairman's performance will continue to be conducted as required by the Code. Further, as indicated above, the Board Effectiveness Review included an assessment of the Chairman and his fulfilment of his role.

Going concern

The Directors' statement as to the status of the Company as a going concern can be found on page 40.

Audit Committee report



Colin Rutherford Chairman of the **Audit Committee**

Introduction from the Audit Committee Chairman

I am delighted to present, on behalf of the Board, our Audit Committee report for the financial year ended 26 September 2015.

Since my appointment, I have been committed to gaining a broad understanding of our Group, its operations and challenges, and of necessity continue to spend valuable time with those key individuals throughout the Group who have collectively provided an appreciation and rigorous insight into how our Group functions and reports.

The Audit Committee continues to engage formally, regularly and at an appropriate level of detail with our external auditor, other third party advisers as necessary and our Group assurance and risk director. This has enabled us to gain an appropriate understanding of how our auditors and third-party advisers interact with our Group assurance and risk management function, to give comprehensive coverage of both the external and internal audit process, and confidence in both their respective and collective fieldwork conclusions. It is also important to note our Group provision of sufficient resources in ensuring any additional assurance is obtained where considered appropriate, in support of this overall process.

The role of the Audit Committee continues to focus on challenging the effectiveness of the Group's internal controls, the robustness of our Group assurance and risk management process and in assessing the import of and acting as required upon any and all reported information received from our auditors, third-party advisers and from our rigorous internal audit function.

The Committee is committed to maintaining an open and constructive dialogue with our shareholders on Audit matters. Therefore, if you have any comments or questions on any element of the report, please email me, care of Adrian Brannan, Group Risk Director, at adrian.brannan@mbplc.com.

Colin Rutherford Chairman of the Audit Committee

Membership and remit of the Audit Committee

The main purpose of the Audit Committee is to review and maintain oversight of Mitchells & Butlers' corporate governance, particularly with respect to financial reporting, internal control and risk management. The Audit Committee's responsibilities also include:

- reviewing the processes for detecting fraud, misconduct and internal control weaknesses;
- reviewing the effectiveness of the Group Assurance function; and
- overseeing the relationship with the external and internal auditors.

At the date of the 2015 Annual Report, the Audit Committee comprises three independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh and Stewart Gilliland, and two further Non-Executive Directors nominated by substantial shareholders, Ron Robson and Eddie Irwin. In accordance with Code provision C3.1 the Board considers that Colin Rutherford has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their experience, appear on page 37.

Following the appointment of three Independent Non-Executive Directors in April and May 2013, Committee members were appointed with effect from 11 July 2013, and revised terms of reference established, in order to comply with Code requirements. The Audit Committee met four times during FY 2015.

When appropriate, the Audit Committee augments the skills and experiences of its members with advice from internal and external audit professionals, for example, on matters such as developments in financial reporting. Audit Committee meetings are also attended, by invitation, by members of the Board, the Company Secretary and General Counsel, the Group Risk Director and representatives of the external auditor, Deloitte LLP. The Audit Committee also meets privately not less than twice a year, without any member of management present, in relation to audit matters, with the external auditor.

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 63.

Summary terms of reference

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Company's website: www.mbplc.com/pdf/audit_committee_terms.pdf

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director or member of management, and all employees are expected to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary. The Chair of the Audit Committee reports to the subsequent Board meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

Audit Committee report

continued

The role and responsibilities of the Audit Committee are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- 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 auditor, Company financial statements required under UK legislation before submission to the Board:
- establish, review and maintain the role and effectiveness of the internal audit function, known as Group Assurance, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and any 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.

Key activities of the Audit Committee

Audit matters are reviewed at quarterly Audit Committee meetings throughout the year at which detailed reports are presented for review. The Audit Committee commissions reports from external advisers, the Group Risk Director, or Company management, either after consideration of the Company's major risks or in response to developing issues. During the year, in order to fulfil the roles and responsibilities of the Audit Committee, the following matters were considered:

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the auditor's half year and full year reports;
- reappointment and evaluation of the performance of the auditor, including recommendations to the Board for approval by shareholders, on the reappointment of the Company's auditor and approval of fees and terms of engagement;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the co-ordination of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2015 regarding the level of achievement and the scope of the internal audit plan for FY 2016;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management 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 Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures including a summary of reports received during FY 2015.

Disclosure of significant issues considered

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 74 to 108. The Audit Committee's review included consideration of the following key accounting judgements:

- Property, Plant and Equipment Valuation the assumptions used by management to value the long leasehold and freehold estate including estimated fair maintainable trading levels, brand multiples and use of spot valuations to ensure a consistent valuation methodology is in place. A number of key judgements are also applied in calculating the short leasehold impairment such as trading levels and the use of an appropriate discount rate;
- Orchid acquisition accounting key assumptions used in finalising the fair values of the assets and liabilities acquired in the transaction including considering the valuation of the property acquired (by reference to fair maintainable trade and property multiples) and support for the recognition of a deferred tax asset;
- Taxation tax accounting continues to remain an area of focus, in particular, accounting for deferred tax on the property estate and the level of judgement exercised in valuing tax provisions recorded in respect of uncertain tax positions. The recognition of deferred tax assets, taking into consideration the timing and level of future taxable income, was also assessed; and
- Pension deficit the pension liability is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation, which have an impact on the valuation of the defined benefit pension scheme, was assessed by the Audit Committee.

Effectiveness of internal audit

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Company's internal audit function. The Audit Committee meets regularly with management and with the Group Risk Director and the auditor, to review the effectiveness of internal controls and risk management and receives reports from the Group Risk Director on a quarterly basis.

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the audit plan on a quarterly basis. The FY 2015 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit. A similar approach has been employed in relation to the FY 2016 internal audit plan.

The principal objectives of the internal audit plan for FY 2015 were, and remain for FY 2016:

- to provide confidence that existing and emerging key risks are being managed effectively;
- to confirm that controls over core business functions and processes are operating as intended ('core assurance'); and
- to confirm that major projects and significant business change programmes are being adequately controlled.

During FY 2015, 18 audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee. Internal audit recommendations are closely monitored through to closure via a web-based recommendation tracking system, introduced in FY 2013, which has improved the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

Risk management framework

As disclosed in the 'Risk and uncertainties' section on pages 18 to 21 the Risk Committee continues to meet on a regular basis to review the key risks facing the business. The Risk Committee met on four occasions in FY 2015. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chairman)
- Group Finance Director
- Chief Executive
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, within the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee's review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks. Actions arising from Risk Committee meetings are followed up by the Group Risk Director. The Audit Committee reviews the Risk Committee minutes, in addition to a review of the Group's 'Key Risk Heat Map' quarterly.

Confidential reporting

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2015 (major issues being defined for this purpose as matters having a financial impact greater than £100k).

External auditor appointment

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the new guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The Audit Committee considers that the relationship with the auditor is working well and is satisfied with its effectiveness and has not considered it necessary to require Deloitte LLP to re-tender for the external audit work. There are no contractual obligations restricting the Company's choice of auditor. Following its appointment as auditor, Deloitte LLP was replaced in respect of the provision of internal audit services by PricewaterhouseCoopers LLP.

External auditor's independence

The external auditors should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's auditor as follows:

The following services have been pre-approved by the Audit Committee provided that the fee for the individual project is less than 50% of the audit fee, and in total for the year is less than the audit fee:

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

Acquisition and vendor due-diligence may only be provided if it is specifically approved by the Committee on a case by case basis in advance of the engagement commencing. Any other work for which management wishes to utilise the external auditor must be approved as follows:

- services with fees less than £50,000 may be approved by the Finance Director; and
- engagements with fees of over £50,000 may be approved by the Audit Committee or its Chair.

The Audit Committee remains confident that the objectivity and independence of the auditor are not in any way impaired by reason of the non-audit services which they provide to the Group.

External audit annual assessment

The Audit Committee assesses annually the qualification, expertise, resources and independence of the Group's auditor and the overall effectiveness of the audit process. The Finance Director, Company Secretary and General Counsel, Audit Committee Chairman and Group Risk Director meet with the auditor to discuss the audit and any key issues included on the Audit Committee's agenda during the year.

Fair, balanced and understandable statement

One of the key governance requirements of a Group's financial statements is for the report and accounts to be fair, balanced and understandable. Therefore, upon review of the financial statements, the Audit Committee and the Board are satisfied with the overall fairness, balance and clarity of the Annual Report, which is underpinned by the following:

- formal minutes of the year end working group;
- clear guidance issued to all contributors to ensure a consistent approach; and
 - formal review processes at all levels to ensure the Annual Report is factually correct.

Approved by the Board

Colin Rutherford Chairman of the Audit Committee 23 November 2015

Report on Directors' remuneration



Imelda Walsh Chair of the Remuneration Committee

Statement from the Committee Chair

Dear Fellow Shareholder,

I am pleased to present the Directors' remuneration report in respect of the financial year which ended on 26 September 2015.

Background and business context

Total sales over the financial year grew by 6.6% with like-for-like sales improving by 0.8% over the period. The eating and drinking-out market as a whole has been relatively subdued, especially over the summer months, contributing to this relatively modest increase in like-for-like sales. Profit Before Tax¹ ('PBT') increased by £12m to £184m in FY 2015. Consumer expectations continue to increase, and stable teams help to deliver a great experience, therefore it is encouraging that the level of staff turnover has now fallen to a historical low of 76%, a year-on-year reduction of 2ppts. The benefit of stable teams has also contributed to improvements in guest service, as measured by the Net Promoter Score ('NPS'), which has improved by a further 2% over the year to 65%.

The full integration of the Orchid business acquired in 2014 has been completed, on time and on budget. 41 Orchid businesses have been converted to our brands, and returns from these conversions are strong.

In the summer, the Chancellor announced the introduction of a National Living Wage ('NLW') from April 2016. The NLW will see a significant increase to the overall wage bill and it will not be possible to simply reduce costs as a way of absorbing the increase. We will look at efficiency gains through technology, and changes to service models, and monitor our brand propositions to ensure they remain appropriate to our customers.

The eating and drinking-out market continues to evolve. Consumer expectations in relation to the quality, value and availability of offers will mean that our brands must adapt quickly to these challenges. Phil Urban has outlined his priorities:

- we must maintain the right balance of brands across the estate through expansion and conversion;
- continue to deliver against our key metrics, to continuously improve standards; and
- be prepared to innovate as a way of improving returns and enhancing guest experience.

The Board are delighted to be able to recommend the resumption of a dividend, recognising our earnings growth in 2015.

Appointment of new Chief Executive and departure of former Chief Executive

As reported on 22 September 2015, Phil Urban was appointed to the Board as Chief Executive with effect from 27 September 2015. Phil has extensive experience and a strong track record in a number of senior roles across the hospitality industry. Phil joined Mitchells & Butlers as Chief Operating Officer in early 2015 and has already established strong relationships with the Board and Management team. Phil has been appointed on a salary of £510,000, which is lower than his predecessor's and will next be reviewed in January 2017. The salary level reflects a first appointment to a CEO position and from 2017, any increase to this salary will take into account improvements to business performance and also salaries in comparator companies of a similar size and scale. This is in line with the approved remuneration policy. Full details of Phil's remuneration were announced at the time of his appointment.

Details of the termination arrangements that applied to Alistair Darby were also fully disclosed at the time his leaving was announced and are set out in full in the Annual Remuneration Report.

2015 remuneration

The 2015 bonus plan had two elements, PBT¹ and Guest Service. Whilst PBT¹ has increased by 7% year-on-year and Net Promoter Scores are at their highest ever level, the stretching targets set by the Committee have not been met and therefore no annual bonus awards have been made to Executive Directors.

The 2013-2015 Performance Restricted Share Plan ('PRSP') performance condition also had two elements, growth in adjusted earnings per share ('EPS') and total shareholder return ('TSR'), each with a 50% weighting. Over the performance period EPS¹ growth has been 9.38% p.a., above the 8% p.a. threshold level of performance required for vesting, but below the target for full vesting of 16% p.a. resulting in partial vesting. TSR performance has been below the median threshold required for vesting, and therefore awards under this element of the performance condition will lapse. As a result, overall vesting is 19%. The Remuneration Committee considers that this level of vesting is representative of the Company's overall performance over the three year period and have also taken into account other performance factors and key performance indicators as part of this assessment. For example, over the PRSP performance period, the business has made good progress in enhancing its infrastructure, investment returns have improved and it has completed the acquisition and integration of Orchid. In addition, staff turnover has reduced and NPS is at its highest ever level.

During the year an award was made under the terms of the PRSP in respect of the 2015-2017 performance period and full details are set out on page 65.

Approach for 2016

The Committee was pleased with the outcome of the vote on our remuneration policy, where there was a 99.3% vote in favour of its implementation. No changes to the policy are sought this year, but I would like to draw attention to the following points:

- The bonus for 2016 will continue to be based 75% on profit and 25% on Guest Service but for 2016, the financial metric will be Operating Profit¹, replacing PBT¹. The Committee believes that Operating Profit¹ is a better measure of trading performance and is a key headline figure used in the annual and half year reports. The Committee will continue to set demanding targets for both Operating Profit¹ and Guest Service. Reflecting that approach and in line with typical practice, the Committee will set a Threshold at which point 6.25% will be payable, with 42.5% payable at Target and full pay-out at Stretch performance. The earnings opportunity at on target is slightly lower than in 2015 (50%). The Maximum opportunity remains at 100% of base salary.
- The Remuneration Committee believes that setting long-term incentive plan targets should reflect the Company's strategy. The impact of the NLW, continued evolution of the market and the priorities outlined by the new Chief Executive, will continue to shape strategy and further work is required to ensure that incentive plan targets remain appropriate. With this in mind the Committee has agreed to delay the grant of PRSP awards covering the 2016-18 performance period to allow for this work to be completed. This delay will allow the Committee further time to consider the structure of the PRSP performance condition, within the constraints of the agreed remuneration policy. Irrespective of the outcome of this review it is the intention that TSR will remain as a measure, accounting for at least 50% of any award and retaining the current comparator group. If significant changes to the current performance measures or targets are proposed then leading shareholders and shareholder representative bodies will be consulted, prior to any awards being granted.
- No salary increases will apply for the Finance Director for 2016.

This Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the January 2016 AGM. The Remuneration Policy was approved by shareholders at the last AGM and while not required by the regulations, for ease of reference, is set out in full on pages 54 to 61.

The Committee is committed to maintaining an open and constructive dialogue with our shareholders on remuneration matters. If you have any comments or questions on any element of the report, please email me, care of Craig Provett, Director of Compensation & Benefits, at Remco@mbplc.com

Imelda Walsh Chair of the Remuneration Committee

23 November 2015

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

At a glance

This section briefly summarises the principles that underpin our remuneration policy, its link with our strategic priorities and highlights performance and remuneration outcomes for FY 2015. More detail can be found in the annual report on remuneration on pages 62 to 69.

Remuneration principles

Shareholder alignment

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

Competitive

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

Performance-linked

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

Straightforward

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

Strategic priorities

- Focus the business on the most attractive market spaces within eating and drinking-out.
- Develop superior brand propositions with high levels of consumer relevance.
 - Recruit, retain and develop engaged people who deliver excellent service for our guests.
- Generate high returns on investment through scale advantage.
- Maintain a sound financial base.

FY 2015 annual bonus

The annual bonus was based on two elements; 75% on PBT¹ and 25% on Guest Service as measured by our NPS. Year-on-year improvements have been made against both performance measures. PBT¹ increased by 7% to £184m but still falling short of the threshold level of performance set by the Committee.

NPS scores increased by 2% over the year, and scores are now at their highest ever level at 65%. However, as the threshold level of financial performance has not been achieved, no award under this element has been made.

No bonus awards have been made to Executive Directors in FY 2015.

Report on Directors' remuneration

continued

At a glance continued

FY 2015 PRSP vesting

The PRSP awards granted in 2012 had a performance period ending on 26 September 2015. 50% of the award was based on relative TSR performance and 50% on EPS¹ growth.

	Target	Actual	% vesting
Total Shareholder Return relative to peer group	Median to median x 1.35	Below median	Nil
Compound annual adjusted EPS ¹ growth	8% – 16% CAGR	9.38%	37.9

TSR performance was below median and therefore this part of the award lapsed. EPS¹ growth of 9.38% p.a. over the period will result in 37.9% of this part of the award vesting on 25 November 2015. Overall, 19% of the total award will vest.

FY 2015 single figure remuneration for Executive Directors

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension related benefits £000	Long-term incentives £000	Total remuneration £000
	2015	2015	2015	2015	2015	2015
Alistair Darby	540	18	_	95	225	878
Tim Jones	424	17	_	75	124	640
Total	964	35	_	170	349	1,518

Alistair Darby stepped down and resigned from the Board on 26 September 2015.

Phil Urban was appointed as Chief Executive and joined the Board on 27 September 2015.

Approach for FY 2016

Salary	The new CEO's salary is £510,000 and will not be reviewed until 1 January 2017. The Finance Director's salary remains unchanged at £426,500.			
Benefits and pension	No change proposed. A pension contribution (or cash equivalent) of 20% of salary, will continue to apply.			
Annual bonus	No change to potential quantum – 100% of salary. 75% will be based on Operating Profit ¹ (the reasons for this change of profit measure are given on page 69) and 25% on Guest Service.			
	Half of any bonus payable will be deferred in shares and released in equal parts after 12 and 24 months.			
PRSP	The Committee has decided to delay the grant of PRSP awards covering the 2016-18 performance period. This delay will allow the Committee further time to consider the structure of the PRSP performance condition, within the constraints of the agreed remuneration policy, to ensure that the measures and targets remain appropriate.			

Policy report

This section of the report sets out the Company's remuneration policy as approved at the 2015 AGM and the performance scenario charts have been updated to reflect changes to remuneration from 2016.

The Committee is constituted in accordance with the recommendations of the UK Corporate Governance Code (the 'Code'). The full terms of reference of the Committee are available on our website: www.mbplc.com/investors/businessconduct/boardcommittees and on request. The Committee's responsibilities include:

- making recommendations to the Board on the Company's remuneration policy for Executive Directors and senior Executives giving full consideration to the Code and setting the remuneration for Executive Directors and the Chairman, including pension rights and compensation payments;
- taking account of all factors necessary when determining the
 policy, the objective of which shall be to ensure remuneration policy
 promotes the long-term success of the Company without paying
 more than is necessary; and
- aligning Executive Directors' interests with those of shareholders by providing the potential to earn significant rewards where significant shareholder value has been delivered.

The Committee is mindful of a broad range of stakeholders in the business and accordingly takes account of a range of factors when setting remuneration policy including market conditions, pay and benefits in relevant comparator organisations, terms and conditions of employment across the Group, the Company's risk appetite and shareholder feedback.

The Committee considers a broad range of internal and external information in determining policy; this includes a review of external benchmarking information when reviewing Executive Directors' base pay and as required on appointment of a new Executive Director or Executive Committee member. While market data is provided to the Committee by its independently appointed advisers, such data provides the context for setting pay levels and the Committee does not consider it in isolation.

The remuneration policy for Executive Directors set out over the following pages supports the business needs of the Company, ensuring it promotes the long-term success of the business whilst enabling the Company to attract, retain and motivate senior Executives of a high calibre. The Committee is satisfied that the remuneration policy supports the Company's business strategy of growing long-term shareholder value and appropriately balances fixed and variable remuneration. With a high proportion of reward delivered in the form of equity, this ensures that Executives have strong alignment with shareholders through the Company's share price.

For clarity of reporting, references to the Sharesave Plan ('Sharesave'), Share Incentive Plan ('SIP'), Performance Restricted Share Plan ('PRSP') and Short Term Deferred Incentive Plan ('STDIP') refer both to share awards under these original schemes and, following the expiry of these schemes for grant purposes, subsequent awards under their respective replacement schemes on substantially the same terms. Both the original schemes and their replacements in 2013 were approved by shareholders.

The Committee may alter the vesting outcome if it considers that the level of vesting is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that vesting reflects overall Company performance during the period. The Committee will consult with leading investors before any exercise of its discretion to increase the vesting outcome.

Policy table

The table below summarises each element of the remuneration policy applicable to Executive Directors.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Base salary Provides a sound basis on which to attract and retain Executives of appropriate calibre to deliver the strategic objectives of the Group. To reflect the market value of the role, personal contribution, experience and competence.	Salaries are normally subject to annual review. Salary levels may be influenced by: role, experience or performance; Group profitability and prevailing market conditions; and periodic external benchmarking of similar roles at comparable companies by size and sector. Any increase is normally effective from 1 January. Payable in cash, four-weekly throughout the year. Pensionable.	Normally set broadly around mid-market levels with increases in line with that of the Company's UK workforce. Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual's role or responsibility or where there has been a fundamental change in the scale or nature of the Company. In addition, a higher increase may be made where an individual had been appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce. There may also be circumstances where the Committee agrees to pay above mid-market levels to secure or retain an individual who is considered, in the judgement of the Committee, to possess significant and relevant experience which is required to enable the delivery of the Company's strategy.	Executive Directors' performance is a factor considered when determining salaries. Performance is reviewed in line with the established performance review process in place across the Group.	No recovery or withholding applies.
Annual Performance	e Bonus (cash and shares))		
Provides a direct link between the achievement of annual business performance targets and reward. Deferred bonus, awarded in shares, provides a retention element and additional alignment of interests to shareholders.	Bonus payment level is determined by the Committee by reference to performance against the targets set by the Committee prior to the commencement of the performance year. The cash element of the bonus is normally payable in December following the end of the financial year. Up to half of any bonus award is payable in cash. At least half of any bonus award is deferred as shares under the terms of the STDIP below. Key terms of the STDIP are: deferred bonus share awards are normally released in two equal amounts 12 and 24 months after deferral; and at the discretion of the Committee dividends paid between grant and vesting may accrue on vested shares. Non-pensionable.	Currently, the normal maximum payment is 100% of base salary. At the discretion of the Committee, the maximum earnings potential may be increased in line with the plan rules up to 150% of base salary.	At least 75% of bonus will be based on financial measures. This may be a single measure or a mix of metrics as determined by the Committee. No more than 25% will be based on non-financial measures or personal business objectives. Payment of non-financial measures may be subject to a financial performance threshold. Up to 50% of bonus may be earned for achieving a demanding target with full payout for achieving a second, more demanding target. The nature of the performance measure(s) and the targets are reviewed in advance of each new award. The Committee has the discretion to vary the mix of measures or to introduce new measures to reflect business need. As the bonus is subject to performance conditions, any deferred bonus is not subject to further conditions. The Committee may alter the bonus outcome if it considers that the payout is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that payouts reflect overall Company performance during the period. The Committee will consult with leading investors before any exercise of its discretion to increase the bonus outcome.	Clawback and malus will apply to the cash bonus and deferred shares where there has been a misstatement of the accounts, or other data, or a serious misdemeanour or serious misconduct by the participant has occurred prior to payment or vesting or within two years of payment or vesting of shares.
·	cted Share Plan ('PRSP')		0.6	
To incentivise delivery of sustained growth through superior long-term performance, provide an element of retention and increase alignment with shareholders.	Discretionary annual award of nominal cost options. Vested options are exercisable immediately following confirmation of performance. At the discretion of the Committee vested options attract Dividend Accrued Shares between award and vesting. Under the rules of the PRSP, conditional share awards may also be granted although there is currently no plan to grant such awards. Non-pensionable.	The normal maximum annual award of nominal cost options is 200% of base salary. The maximum award may be increased in line with the plan rules to 250% of base salary. Any increase to the normal maximum award of 200% of base salary, other than in exceptional circumstances such as recruitment, would also be subject to prior consultation with leading investors.	Performance condition is measured over three financial years. The current performance condition includes EPS growth and total shareholder return (TSR) relative to a peer group of comparator companies. For each element, 25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance. Straight-line vesting applies between threshold and maximum. The Committee has the flexibility to vary the mix of measures or to introduce new measures. The Committee will consult with leading investors before implementing any change. The Committee may alter the vesting outcome	Clawback and malus applies on the same basis as the annual bonus.

Report on Directors' remuneration continued

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
All-Employee Share	Plans			
To underpin the employee engagement strategy and encourage employees to have a financial stake in the future of the Company.	All eligible employees, including the Executive Directors, can participate in the HM Revenue & Customs ('HMRC') approved Sharesave and SIP. Sharesave: all eligible employees can save over a three or five year maturity period. Proceeds from the savings contract may be used to acquire shares in the Company at an option price fixed at the date of invitation.	Sharesave: Maximum savings up to HMRC limits (currently £500 per month) over a three or five year maturity period. SIP: Maximum Free Share award up to HMRC limit (currently £3,600 per tax year). Partnership Shares up to HMRC limit (currently with an initial value of up to £1,800 per tax year).	Sharesave: No performance metrics apply. SIP: No performance metrics apply.	Sharesave: No recovery or withholding applies. SIP: No recovery or withholding applies.
	SIP: all eligible employees are invited to participate. A Free Share award is made annually. Free shares are typically held in trust for at least three years. In addition, eligible employees may purchase, from their gross pay, Partnership Shares. Partnership Shares are held in trust and can be released at any time. Income tax and National Insurance Contributions are normally payable on the value of shares released within five years of purchase.			
	The Committee has discretion under the SIP rules to operate Matching Share and Dividend Share elements, although there is currently no plan to do so.			
Pension (or cash allo	owance)			
To provide a market-aligned retirement benefit	Payment into a Company Pension, Personal Individual Pension and/or a cash allowance in lieu of Company pension contributions once statutory limits (Fixed Protection and Annual Allowance) are reached, or a combination of both.	The Company contribution is a maximum of 20% of base salary.	No performance metrics apply.	No recovery or withholding applies.
Other benefits				
To provide market-aligned benefits.	Benefits include (but are not limited to) private healthcare, life assurance, annual health check, employee assistance programme, use of a Company vehicle or cash equivalent, and discounts on food and associated drinks purchased in our businesses. Private healthcare is provided for the Executive, spouse or partner and dependent children.	In line with market practice, the value of benefits may vary from year to year depending on the cost to the Company from third-party suppliers.	No performance metrics apply.	No recovery or withholding applies other tha if relocation cost: were provided. A proportion of any relocation costs may be recovered where
	Discount vouchers are provided on the same basis to all employees and can be redeemed in any of our managed businesses provided the purchase is a personal, not a business, expense.			a Director leaves the employment of the Group within two years of appointment or date of relocation.
	Relocation or the temporary provision of accommodation may be offered where the Company requires a Director to relocate. Expatriate allowances may be offered where required. Travel and, if relevant, related expenses such as accommodation may be reimbursed on a gross of tax basis.			date of relocation
	Executive Directors may become eligible for any new benefits introduced to a wider set of other Group employees.			

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Shareholding policy	y			
To align the interests of the Executive Directors with shareholders and promote a long-term approach to risk	The Chief Executive is required to hold Mitchells & Butlers' shares to the value of a minimum of 150% of base salary. Other Executive Directors are required to hold Mitchells & Butlers' shares to the value of a minimum of 100% of base salary.	n/a	n/a	n/a
management	Except for those sold to cover the acquisition cost together with the associated income tax and National Insurance Contributions, Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required has been achieved.			
	It is expected that the guideline will normally be achieved within five years of appointment to the Board.			
	Only shares owned outright by the Executive Director or a connected person are included. Shares or share options which are subject to a performance condition are not included. Deferred shares and options which are vested but unexercised are also not included.			
	The value of the Shareholding will be the number of shares owned multiplied by the average share price over the previous three months up to the date of valuation.			

Notes to the policy table

Table 1 summarises the reasons behind the selection of the performance metrics, and sets out the categories of employee, other than Executive Directors, who are eligible to participate in each scheme. Table 2 compares the remuneration and benefits received by Executive Directors with that received by other Group employees.

Table 1

Element	Notes
Annual Performance Bonus	The main emphasis of the annual plan is to reward management for the achievement of financial targets such as profit growth, which is a key indicator of the Company's performance.
	Non-financial measures are intended to measure whether management are delivering against \ker lead performance indicators.
	Targets are determined annually by the Committee.
	All salaried employees participate in a bonus scheme. Save for certain operational and operational support roles where some, or all, of the annual bonus relates directly to the performance of the business or area for which the participant is responsible, a common annual bonus target applies across all participating employees
	Retail staff do not participate in any bonus scheme.
PRSP	Senior employees, including Executive Directors and members of the Executive Committee, participate in the PRSP. No long-term incentive plans apply for any other employees.
	Measures for Executive Directors include:
	• EPS' growth which is a measure of overall profitability of the business for investors over the long term and therefore is a fundamental element of aligning shareholders' interests with those of executives.
	Relative TSR performance which provides a measure of long-term success of the Company relative to an appropriate group of peer comparators.
	From 2015 onwards EPS ¹ will be the only measure for participants below Executive Committee level.

Table 2

Remuneration and Benefits

so. ssistant management
ssistant management
oloyees have access
P is not available
ff employees who ying Earnings*
ss purposes.
s the cost of goods the
e Directors. Where ar a National Insurance penefits offered to
1

^{*} As defined by legislation.

Report on Directors' remuneration

continued

Legacy arrangements

For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with current or former Directors before the current legislation on remuneration policies came into force or before an individual became a Director (such as the payment outstanding on incentive awards) even where it is not consistent with the policy prevailing at the time such commitment is fulfilled.

Incentive plan discretions

The Committee will operate the incentive plans described in the policy table according to their respective rules, the policy set out above and in accordance with the Listing Rules, applicable legislation and HMRC guidance where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of award and/or payment, subject to policy limits;
- the choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules; and
- adjustments required in certain circumstances (eg rights issues, corporate restructuring, on a change of control and special dividends).

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Chairman and Non-Executive Director fees

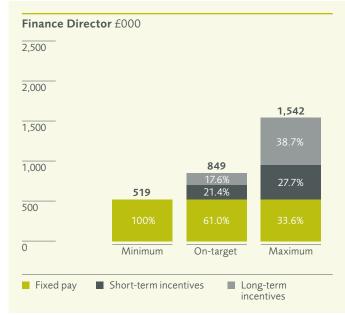
Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Fees				
To attract and retain Non-Executive	Payable in cash, four-weekly throughout the year.	Where a Non-Executive Director undertakes additional responsibilities,	No performance metrics apply.	No recovery or withholding
Directors of appropriate calibre and experience.	Fees are normally reviewed annually with any increase usually taking effect from 1 January each year.	other than the chairing of a committee, additional fees may be set, eg for a Senior Independent Director.		applies.
	The Chairman's fee is reviewed annually by the Committee (without the Chairman present).			
	Remuneration policy for the Non-Executive Directors is determined by the Company Chairman and Executive Directors by reference to companies of similar size and sector as well as time commitment and responsibilities. Non-Executive Directors receive a base fee and an additional fee for chairing a committee.			
	Travel, accommodation and other related expenses incurred in carrying out the role will be paid by the Company including, if relevant, any gross up for tax.			

Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes, benefit schemes (other than the all-employee discount voucher scheme) or pension plans.

Illustrations of application of remuneration policy

A key principle of the Group's remuneration policy is that variable short and long-term reward should be linked to the financial performance of the Group. The charts below show the composition of the new CEO's and the Finance Director's remuneration at minimum, on-target and maximum levels of performance in FY 2016.





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

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective at 1 January 2016. Benefits are based on actual FY 2015 figures and include company car, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable in respect of base salary from 1 January 2016.

On-target

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

- 42.5% of base salary is payable under the short-term incentive plan; and
- 25% of the award (50% of base salary for the Chief Executive and 35% of base salary for the Finance Director) is payable under the long-term incentive plan.

Maximum

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

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

A breakdown of the elements included in the application of remuneration policy to the remuneration charts is shown in the table below:

		Fixed (£000)				an (£000)	Long-term pl	an (£000)
	Base Pay	Benefits	Pension	Total Fixed	On-target	Maximum	On-target	Maximum
Chief Executive	510	18	90	618	217	510	255	1,020
Finance Director	426.5	17	75	518.5	181.3	426.5	149.3	597.1

Note: The value received under the short-term plan is the gross value of awards before 50% is deferred into shares. The values received under the short-term plan and long-term incentive plan do not take into account dividend accrued shares that are payable on the vesting of awards nor any changes in share price.

Report on Directors' remuneration

continued

Service contracts

Executive Directors' contracts

The table below summarises key elements of the service contracts applicable to Executive Directors:

Notice period

- Executive Directors are employed under service contracts that may be terminated by the Company at any time on one year's notice.
- Any payment made in lieu of notice would comprise base salary only^a and may be payable in instalments in line with the established salary payment dates until
 the expiry of the notice period or, if earlier, the date on which alternative employment or other engagement is secured with the same or higher base salary. If
 employment is secured at a lower rate of base salary, subsequent instalments of the payment in lieu of notice shall be reduced by the value of alternative income.
- Service contracts contain a provision enabling the Company to put the Executive Director on garden leave after notice to terminate the service contract has been given by either party. During this period, the Executive will be entitled to base salary only.

Termination

- If an Executive Director's employment with the Group ends during the financial year, normally any entitlement to bonus for that year is forfeited. However, if the individual leaves by reason of ill-health, injury, disability, retirement, redundancy, death or sale of his employing business or company or if the Committee so decides in any other case, at the Committee's discretion the Executive Director may receive a bonus pro-rated to time employed in the year or to such later date as the Committee may decide. The Committee may decide, at its discretion, to pay the bonus all in cash.
- If an Executive Director ceases employment following the end of the financial year but before payment of the bonus in respect of that year, there is no entitlement to a bonus but the Committee may, at its discretion, pay a bonus for that year. Any such bonus, at the Committee's discretion, may be all in cash.
- If an Executive Director ceases employment prior to the release of Bonus Award Shares under the STDIP for the same specified good leaver reasons as set out above, the Committee, at its discretion, may release the Bonus Award Shares (and associated Dividend Accrued Shares) at the date of termination. Otherwise, the shares will be released on the normal release date. If the Director leaves for any other reason, his entitlement to Bonus Award Shares (and associated Dividend Accrued Shares) is forfeited, unless the Committee decides otherwise.
- If an Executive Director dies before an Award under the PRSP has vested, vesting of the award (and associated Dividend Accrued Shares) will occur as soon as practicable based on performance and on a time pro-rated basis.
- If the Executive Director ceases employment for the same defined good leaver reasons as are specified above, the Award (and associated Dividend Accrued Shares) will vest following the end of the normal performance period and on a time pro-rated basis. If employment ceases for any other reason, the Award will normally lapse, unless the Committee decides otherwise (except that if employment ceases by reason of gross misconduct the Award (and associated Dividend Accrued Shares) must lapse).
- The Committee has no discretion in relation to shares or options held under the all-employee share plans (SIP and Sharesave); on termination these will vest, become exercisable or lapse in accordance with the legislation governing tax favoured plans.
- a. This arrangement applied to Alistair Darby and applies to Phil Urban. Any payments in lieu of notice in respect of Tim Jones, whose appointment and service contract pre-dates 27 June 2012 (the relevant date for the purposes of the regulations) and does not fall within the current policy, will comprise base salary and contractual benefits only.

In the event that the Company terminates an Executive Director's service contract other than in accordance with the terms of his contract, the Committee will act in the best interests of the Company, and ensure there is no reward for failure. When determining what compensation, if any, is to be paid to the departing Executive Director, the Committee will give full consideration to the circumstances of the termination, the Executive Director's performance, the terms of the service contract relating to notice and payments in lieu of notice, and the obligation of that Executive Director to mitigate any loss which he may suffer as a result.

Although the Company would seek to minimise termination costs, the Committee may in appropriate circumstances provide other elements in a leaving Director's termination package, including (without limitation): compensation for the waiver of statutory rights in exchange for the Director executing a settlement agreement; payment of the leaving Director's legal fees in connection with his termination arrangements; and payment of outplacement fees. In addition, the Committee may determine that the Director should continue to be engaged by the Company on consultancy or other terms following cessation of his directorship.

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

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Alistair Darby ^a	08/10/12	Indefinite	12 months	6 months	No
Phil Urban	27/9/15 ^b	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Alistair Darby stepped down from the Board on 26 September 2015.

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

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 conflicts of interest. Fees received may be retained by the Executive Director. On 30 October 2014 Tim Jones was appointed as an independent Non-Executive Director and Chairman of the Audit and Risk Committee of Poundland Group plc. No other Non-Executive appointments applied in the year to 26 September 2015.

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles, all Directors, including Non-Executive Directors, will stand for re-election at the 2016 AGM. This is also in line with the recommendations set out in paragraph B.7.1 of the Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination. The dates of appointment of the Non-Executive Directors to the Committee are set out on page 62.

Douglas McMahon and Ron Robson were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on pages 38 and 39. On 13 November 2015 Douglas McMahon stepped down from the Board and Josh Levy was appointed as his replacement Piedmont representative.

Copies of both the individual letters of appointment for Non-Executive Directors, and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2016 AGM.

Recruitment of Executive Directors

Where it is necessary to appoint a replacement or additional Executive Director, the Committee will set a base salary appropriate to the experience and responsibilities of the new appointee and in line with our policy set out on page 55.

The maximum level of variable pay is 400% of base salary (150% in relation to annual cash bonus/STDIP and 250% in relation to the PRSP).

Depending on the timing and responsibilities of the appointment it may be necessary to set different annual bonus/STDIP performance measures and targets as applicable to other Executive Directors.

Benefits (including pension, Company vehicle or cash allowance, healthcare, life assurance, health check and, where applicable, relocation assistance) would be consistent with the principles of the policy as set out on page 56.

For an internal appointment, his or her existing pension arrangements may continue to operate (which may include participation as an employee deferred member in the defined benefit plan, which is closed to future accrual) and any existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.

In the event that a buyout award is necessary to secure the services of an Executive Director then the structure of the award will mirror, as far as is possible, the arrangements in place at the incoming Executive Director's previous employer, and may include cash and/or an award of shares. Any share awards made outside of the Company's existing plans may have no or different performance conditions or a shorter vesting period compared to the Company's existing plans. Shareholders will be informed of any buyout arrangements at the time of the Executive Director's appointment.

Recruitment of Non-Executive Directors

Chairman

The Committee will recommend to the Board a fee appropriate to the experience and responsibilities of the new appointee.

Other Non-Executive Directors

The fee will be set in line with the fee structure for Non-Executive Directors in place at the date of appointment.

Consideration of employment conditions elsewhere in the Group

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees. Where significant changes are proposed to employment conditions elsewhere in the Group these are highlighted for the attention of the Committee at an early stage. The Committee is informed of the base pay review budget applicable to other employees and is cognisant of changes to the National Minimum Wage when considering the pay of Executive Directors. Hourly paid employees received an average pay increase of 2.5% with effect from 27 September 2015. During 2015 the Board considered in detail the impact of the introduction of the NLW, and in particular how the introduction of the NLW will impact on the ability to retain and recruit employees of all ages across all retail job roles.

Employees are not specifically consulted on Executive Remuneration. All employees are, however, invited to take part in our annual Your Say employee engagement survey in which they have an opportunity to provide anonymous feedback on a wide range of topics of interest or concern to them. The results of the survey are reviewed by the Board; any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration policy.

Consideration of shareholder views

This policy was set following consultation with major shareholders and investor groups in 2014. Major shareholders and their representative bodies will continue to be consulted where material changes to the Executive Directors' remuneration policy are being considered.

Report on Directors' remuneration

continued

Annual report

This section details the remuneration of the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 26 September 2015. The report will be subject to an advisory vote at the AGM on 28 January 2016.

Committee membership and operation

Committee members were appointed on 11 July 2013. From that date Imelda Walsh was appointed as Committee Chair. Committee members are listed below.

Name	Date of appointment	Name	Date of appointment
Imelda Walsh (Chair)*	11 July 2013	Bob Ivell	11 July 2013
Colin Rutherford*	11 July 2013	Ron Robson	11 July 2013
Stewart Gilliland*	11 July 2013	Eddie Irwin	11 July 2013

^{*} Independent Non-Executive Directors.

Committee activity during the year

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

October 2014

• PRSP arrangements for the 2015 award

November 2014

- Review of Executive Directors' salaries
- Update on Directors' shareholdings
- Review of Directors' expenses
- Release of the first tranche of the 2013 deferred bonus award

March 2015

- Impact of Accounting Standard IAS 19 on PRSP targets
- Impact of M&A activity on TSR measure applying to existing PRSP awards
- Update on Directors' shareholdings

June 2015

- Projected PRSP vesting
- Executive Remuneration trends
- Consideration of terms and conditions across the Group
- 2016 bonus arrangements, initial discussion

September 2015

- Alistair Darby's settlement agreement
- Phil Urban's appointment terms

Advice to the Committee

During the year, the Committee continued to receive advice from New Bridge Street ('NBS'), a trading name of Aon Plc. NBS were appointed following a competitive tender in 2014. Total fees payable in respect of remuneration advice in the reporting year totalled £62,719¹. Neither NBS nor Aon Plc provide any other services to the Group.

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

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

The Committee determines the policy and individual remuneration package for each Executive Director and the Company Chairman. In addition, the Committee makes recommendations to the Board on any new long-term incentive plans, but such plans are approved by the Board as a whole and, where necessary, by shareholders.

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

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

Statement of voting at 2014 AGM

At the 2014 AGM, the resolutions on the Directors' Remuneration Policy and Annual Report on Remuneration received the following votes from shareholders:

	Votes cast	Votes for ^a	%	Votes against	%	Votes withheld ^b
Directors' Remuneration Policy	349,508,055	347,071,910	99.30	2,436,145	0.70	190,129
Annual Report on Remuneration	348,545,026	348,330,462	99.94	214,564	0.06	1,153,158

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

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

The tables and related disclosures set out on pages 63 to 67 on Directors' remuneration, STDIP, share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Directors' remuneration

The tables set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on page 64.

Executive Directors

	Basic sa £00		Taxable b		Short- incent £00	tives	Pension bene £00	fits ^b	Long- incent £00	ives ^c	Tot remune £00	ration
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Alistair Darby	540	531	18	18	_	_	95	93	225	_	878	642
Tim Jones	424	417	17	17	_	_	75	75	124	_	640	509
Sub Total Executive Directors	964	948	35	35	_	_	170	168	349	_	1,518	1,151

Non-Executive Directors

		es 00	Taxable b		inceni £00	tives	Pension bene £00	fits ^b	incent £00	tives	remune £00	eration
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Bob Ivell	282	274	5	6	_	_	_	_	_	_	287	280
Ron Robson	51	50	4	32	_	_	_	_	_	_	55	82
Stewart Gilliland	58	50	2	1	_	_	_	_	_	_	60	51
Eddie Irwin	51	50	_	_	_	_	_	_	_	_	51	50
Douglas E McMahon	51	50	_	1	_	_	_	_	_	_	51	51
Colin Rutherford	61	60	1	2	_	_	_	_	_	_	62	62
Imelda Walsh	61	60	1.5	1	_	_	_	_	_	_	62.5	61
Sub Total Non-Executive												
Directors	615	594	13.5	43	_	_	_	_	_	_	628.5	637
Total Executive Directors and												
Non-Executive Directors	1,579	1,542	48.5	78	_	_	170	168	349	_	2,146.5	1,788

- a. Taxable benefits for the year comprised car allowance, healthcare, taxable expenses and the award of free shares under the all-employee SIP as set out on page 66.
- b. Based on the value of supplements paid in lieu of contributions to the Company Scheme.
- c. As the share price at vesting for the 2012 PRSP award is unknown, its value based on the three month average share price to the end of the 2015 financial year of 385.7p. d. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses.

Report on Directors' remuneration

continued

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in the policy section of this report. For FY 2015, 75% was based on PBT¹ and 25% was based on Guest Service (measured by the Company's NPS).

The Group delivered PBT 1 of £184m, a year-on-year increase of £12m, and 94.4% of target performance. As a result no bonus is due in respect of the PBT measure.

NPS scores increased by 2% over the year, and scores are now at their highest ever level at 65%. However, as the threshold level of financial performance has not been achieved, no award under this element has been made.

No bonus awards have been made to Executive Directors in FY 2015.

Long-term incentives vesting during the year

During FY 2013 awards were made to Alistair Darby and Tim Jones under the terms of the PRSP to the value of 200% and 140% of their respective base salaries. The performance condition has two independent elements, compound annual adjusted EPS growth and TSR performance against a group of peer companies, measured over a three year performance period ending 26 September 2015.

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

2013-2015 PRSP – performance conditions	Target	Actual	% vesting
Total Shareholder Return relative to peer group*	Median to median x 1.35	Below median	Nil
Compound annual adjusted EPS growth	8%-16% CAGR	9.38%	37.9%

^{*} Enterprise Inns, Punch Taverns, Fuller Smith & Turner, Greene King, Marston's, Whitbread, J D Wetherspoon, Spirit Pub Company and The Restaurant Group.

From 2014 the reported adjusted EPS figure was affected by revisions to IAS 19 and as a result the net pensions finance charge is now deducted from underlying profit. As this charge is not controllable by management, and can be significantly affected by the bond-market derived discount rate and triennial pensions valuation, the Committee has determined that the most appropriate and fair approach is to remove the impact of IAS 19 from the base and end EPS¹ year in respect of this and future PRSP cycles to ensure a like-for-like comparison. This approach has not changed the performance required to achieve vesting. The table below sets out in detail how this decision has affected the vesting outcome of the 2013-2015 award:

	EPS (p)
Reported 2012 EPS (excludes IAS 19 charge)	29.8
Reported 2015 EPS (includes IAS 19 charge)	35.7
IAS 19 Impact	3.3
Revised 2015 EPS for vesting (excludes IAS 19 charge)	39.0

As a result of adding back the IAS 19 charge to the 2015 EPS¹ figure, the base and end years have been calculated on a consistent basis. Compound annual growth over the period was 9.38% resulting in 37.9% of this element vesting. Overall 19% of the 2013-2015 PRSP will vest. The Remuneration Committee considers that this level of vesting is representative of the Company's overall performance over the three year period and has also taken into account other performance factors and key performance indicators as part of this assessment. For example, over the PRSP performance period staff turnover has reduced, NPS is at its highest level and investment returns have improved. In addition, the business has made good progress in enhancing its infrastructure and has completed the acquisition and integration of Orchid.

Alistair Darby will receive 58,216 shares and Tim Jones will receive 32,185 shares on 25 November 2015.

Payment for loss of office

Alistair Darby stepped down as Chief Executive and resigned from the Company on 26 September 2015. The Company was required to give Alistair Darby 52 weeks' notice under the terms of his contract. After careful consideration the Board determined it would not be in the best interests of the business for Alistair to work his contractual notice period, and therefore agreed to make a payment in lieu of notice of 52 weeks' basic salary. This will be paid in thirteen instalments, but each instalment will be reduced (potentially to nil) in the event that Alistair commences another role before 26 September 2016.

The Committee has agreed that Alistair should be treated as a good leaver for the purposes of incentive awards in recognition of his contribution to the business. However, since the performance targets for the FY 2015 annual bonus were not achieved, no bonus is due to him. The following applies for his outstanding share awards:

- The 2013 Deferred shares will be released in December 2015 in line with the normal cycle.
- PRSP awards will be pro-rated for service and will vest subject to performance. The 2013 award will vest in November 2015 at the normal time at 19%. The Committee anticipates that the 2014 award will see little, if any, vesting, based on projected performance.
- The 2014 SAYE and Free Share element of the all employee SIP have lapsed.

The Company will make a contribution towards his legal fees in connection with these arrangements of up to £2,000 plus VAT.

These arrangements are all in accordance with the approved remuneration policy and were fully disclosed at the time Alistair Darby's leaving was announced to the London Stock Exchange.

Long-term incentive awards made in FY 2015

An award was made in accordance with the rules of the Performance Restricted Share Plan ('PRSP') and as set out in the policy section of this report.

The independent elements of the performance measure for the November 2014 award, each of which accounts for 50% of the award, are summarised below:

	Threshold vesting target*	Maximum vesting target
 Compound annual adjusted Earnings Per Share ('EPS') growth (measured before exceptional items and other adjustments, including IAS 19). 	25% will vest if the compound annual EPS ¹ growth is 8%.	100% will vest if compound annual EPS ¹ growth is at least 16%.
2. Total Shareholder Return ('TSR') relative to a peer group of comparator companies.**	25% will vest for TSR performance equivalent to the median of the comparator group.	100% will vest for TSR performance equivalent to the upper quartile of the comparator group.

The EPS and TSR conditions are measured over three years from the start of the financial year in which they are granted, ie the three financial years from 28 September 2014, ending in September 2017.

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

- Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.
- ** Comprises the constituents of the FTSE \overrightarrow{All} Share Travel & Leisure group as \overrightarrow{at} the date of grant.

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

Details of awards made to Executive Directors under the PRSP are set out below.

	Options awarded during the year to 26/09/15	Basis of award (% of Basic Annual Salary)	Award date	Market price per share at award date (p)	Actual/ planned vesting date	Latest lapse date	Face value* £
Executive Directors				'			
Alistair Darby	294,634**	200	27/11/14	363.5	25/11/17	25/11/18	1,070,994
Tim Jones	161,856	140	27/11/14	363.5	25/11/17	25/11/18	588,346
Total	456,490						1,659,340

Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the business day immediately preceding the award. 196,423 of the options awarded lapsed on the termination of Alistair Darby's employment.

The aggregate option price of each award is £1.

All-employee Sharesave and SIP

An award was made under each of the HMRC-approved all-employee share plans in line with the policy set out on page 56.

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

Sharesave

	Ordinary shares under option								
	Date of grant	Shares awarded during the year 28/09/14 to 26/09/15	Vested during period	Exercised during period	Closing balance at 26/09/15	Option price (p)	Earliest exercise date	Last expiry date	
Director									
Tim Jones	19/06/15	2,486	_	_	2,486	362.0	01/10/18	31/03/19	
Total		2,486	_	_	2,486	_	_	_	

Report on Directors' remuneration

SIP

1,01.05	0, 2	, 50, 15	102.0	.,, 50, 10		
Tim Jones	679	19/06/15	463.8	19/06/18	_	_
Director Alistair Darby	776	19/06/15	463.8	19/06/18	_	776
	Shares awarded during the year 28/09/14 to 26/09/15	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 67.

PRSP, STDIP and other share awards

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

		Number of shares at 27 September	Granted during the		Lapsed during the	Exercised during the	Number of shares at 26 September	Date from which	
Name of Director	Scheme	2014	period	Date of grant	period	period	2015	exercisable	Expiry date
Alistair Darby	PRSP								
	2013-15ª	307,210	_	Feb 2013	_	_	307,210	Nov 2015	Nov 2017
	PRSP								
	2014-16 ^a	262,434	_	Nov 2013	87,478°	_	174,956	Nov 2016	Nov 2018
	PRSP								
	2015-17 ^a	_	294,634	Nov 2014	196,423°	_	98,211	Nov 2017	Nov 2019
	STDIP 2013	44,436	_	Dec 2013	_	22,218	22,218	Dec 2014 ^e	Dec 2015
	SAYE 2014	5,487	_	Jun 2014	5,487 ^d	_	_	Oct 2017	Mar 2018
	Total	619,567	294,634		289,388	22,218	602,595		
Tim Jones	PRSP			,					
	2013-15 ^a	169,846	_	Feb 2013	_	_	169,846 ^b	Nov 2015	Nov 2017
	PRSP								
	2014-16a	144,162	_	Nov 2013	_	_	144,162	Nov 2016	Nov 2018
	PRSP								
	2015-17 ^a	_	161,856	Nov 2014	_	_	161,856	Nov 2017	Nov 2019
	STDIP 2013	35,292	_	Dec 2013	_	17,646	17,646	Dec 2014 ^e	Dec 2015
	SAYE 2012	4,945	_	Jun 2012	_	_	4,945	Oct 2015	Mar 2016
	SAYE 2014	2,743	_	Jun 2014	_	_	2,743	Oct 2017	Mar 2018
	SAYE 2015		2,486	Jun 2015			2,486	Oct 2018	Mar 2019
	Total	356,988	164,342	702019	_	17,646	503,684	30020.0	

<sup>a. 50% of the PRSP award subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets. Adjusted EPS is affected by the adoption of IAS 19 and related changes in reporting; for the purposes of measuring EPS performance the impact of IAS 19 is excluded to ensure a like-for-like comparison between the base and end years.
b. The 2013-15 PRSP is due to vest in November 2015, at which point Alistair Darby will receive 58,216 shares and Tim Jones 32,185 shares.
c. Shares were pro-rated for service and lapsed on the termination of Alistair Darby's employment on 26 September 2015.
d. Shares lapsed on the termination of Alistair Darby's employment on 26 September 2015.
e. Shares released in two equal transfers 12 and 24 months after grant Data chown is the first released data.</sup>

e. Shares released in two equal tranches 12 and 24 months after grant. Date shown is the first release date.

Directors' interests

Executive Directors are expected to hold Mitchells & Butlers' shares in line with the shareholding guidelines set out in the Remuneration Policy report.

Based on the valuation methodology as set out in the shareholding policy, Alistair Darby's shareholding was 75.9% (2014 63.8%) of his basic annual salary and Tim Jones's shareholding was 39.3% (2014 23.4%) of his basic annual salary.

The shareholding policy requires that Executive Directors accumulate Mitchells & Butlers shares to the value of a minimum of 100% of salary within five years of appointment to the Board (150% for the CEO). Tim Jones completed five years as an Executive Director on 18 October 2015. The Committee continues to pay close attention to Mr Jones's shareholding and will take into account the number of shares Mr Jones has purchased, the impact of incentive plan vesting and his ongoing commitment to meet the requirement over time.

The interests of the Directors in the ordinary shares of the Company as at 26 September 2015 and at 27 September 2014 were as set out below:

	Wholly shares v performance	vithout	Shares performance		Unvested options/ awards without performance conditions ^b		Unvested options/ awards with b performance conditions ^c		Vested but unexercised options		Total shares/options	
	26/09/2015	27/09/2014	26/09/2015	27/09/2014	26/09/2015	27/09/2014	26/09/2015	27/09/2014	26/09/2015	27/09/2014	26/09/2015	27/09/2014
Executive Directors												
Alistair Darby	107,030	85,588	-	_	22,218	49,923	580,377	569,644	_	_	709,625	705,155
Tim Jones	43,428	24,667	-	_	27,820	42,980	475,864	314,008	-	_	547,112	381,655
Non-Executive Directors												
Bob Ivell	12,006	12,006	_	_	_	_	_	_	_	_	12,006	12,006
Ron Robson	_	_	_	_	_	_	_	_	_	_	_	_
Stewart Gilliland	11,000	_	_	_	_	_	_	_	_	_	11,000	_
Eddie Irwin	30,000	10,000	_	_	_	_	_	_	_	_	30,000	10,000
Douglas McMahon	_	_	_	_	_	_	_	_	_	-	_	_
Colin Rutherford	_	_	_	_	_	_	_	_	_	_	_	_
Imelda Walsh	7,500	7,500	_	_	_	_	_	-	_	_	7,500	7,500
Total	210,964	139,761	-	_	50,038	92,903	1,056,241	883,652	_	_	1,317,243	1,116,316

- a. Includes Free Shares and Partnership Shares granted under the SIP.
- b. Options granted under the Sharesave as detailed in the table on page 65 and deferred bonus awards granted under the STDIP.
 c. Options granted under the PRSP as detailed in the table on page 65.

No share options were exercised in the year by either Alistair Darby or Tim Jones.

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

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

Tim Jones acquired 4,945 shares under the Sharesave plan and acquired 79 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial year and 23 November 2015.

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 26 September 2015 was 322.3p and the range during the year to 26 September 2015 was 475.3p to 322.3p

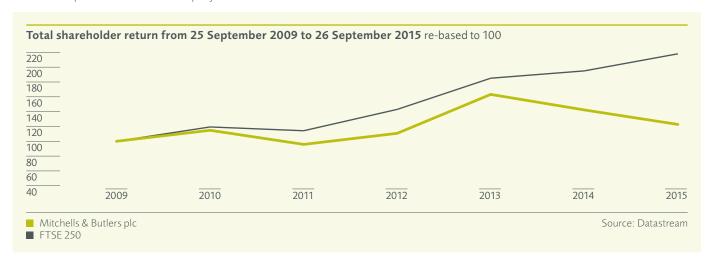
The Executive Directors as a group beneficially own 0.036% of the Company's shares.

Report on Directors' remuneration

continued

TSR performance graph

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



CEO earnings history

Year ended	25/09/10	24/09/11	29/09/12	28/09/13	27/09/14	26/09/15
Alistair Darby						
Single figure remuneration (£000)	_	_	_	982ª	642	878
Annual bonus outcome (% of max)	_	_	_	71.0	_	_
LTIP vesting outcome (% of max)	_	_	_	n/a	n/a	19.0
Bob Ivell						
Single figure remuneration (£000)	_	_	557	69 ^b	_	_
Annual bonus outcome (% of max)	_	_	n/a ^c	n/a ^c	_	_
LTIP vesting outcome (% of max)	_	_	n/a ^c	n/a ^c	_	_
Jeremy Blood						
Single figure remuneration (£000)	_	397	50	_	_	_
Annual bonus outcome (% of max)	_	_d	n/a ^c	_	_	_
LTIP vesting outcome (% of max)	_	n/a ^c	_	_	_	_
Adam Fowle						
Single figure remuneration (£000)	1,315	483e	_	_	_	_
Annual bonus outcome (% of max)	87.6	16.0	_	_	_	_
LTIP vesting outcome (% of max)	16.2	24.2	_	_	_	_

a. Alistair Darby formally took up the position of CEO on 12 November 2012 following a short period of induction and handover. The figure shown reflects the date of his appointment to the Board (8 October 2012).

Change in remuneration of the CEO

	Salary (£)			lax	able Benefits (,±)	Bonus (£)			
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change	
CEO	539,925	531,334	1.6	14,810	14,483	2.3	0	0	0	
Salaried employees	31,380	30,474	3.0	759	771	1.6	1,671	1,922	13.1	

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

b. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.

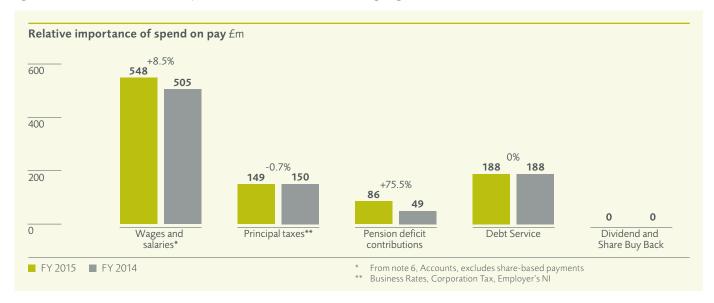
c. The Director was not a participant in the plan.

d. Jeremy Blood was not a participant in the short-term incentive plan; at the discretion of the Board a payment of £100,000 was made in respect of his contribution as Interim Chief Executive. This payment is included in the single remuneration figure (£397,000) above. Earnings exclude the fee payable for the period 26 September 2010 to 14 March 2011 during which Mr Blood served as a Non-Executive Director.

during which Mr Blood served as a Non-Executive Director.
e. Earnings disclosed are to 15 March 2011 when Mr Fowle stepped down as CEO.

The level of bonus paid to salaried employees in 2015 has fallen by 13% in the year, reflecting business performance, and in particular a fall in the number of individual businesses that achieved their bonus targets.

Salaried employees with part-year service in either FY 2014 or FY 2015 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, largely part time and do not participate in any bonus plans. The CEO figures do not include LTIP awards or pension benefits as disclosed in the single figure table.



Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2015 £1.58m (0.29%) was paid to Executive and Non-Executive Directors (2014 £1.54m (0.3%)).

Implementation of Remuneration Policy in Financial Year 2016

Executive Directors' Salary Review

- The Chief Executive's salary was reviewed upon his appointment to the Board and will be £510,000 for FY 2016.
- No salary increases will apply for the Finance Director; salaries are next due to be reviewed in January 2017.

Annual performance bonus

The Committee has reviewed the performance measures and the following changes will take effect for FY 2016:

- The bonus for 2016 will continue to be based 75% on profit and 25% on Guest Service but, for 2016, it is proposed that the financial metric will be Operating Profit¹, replacing PBT. The Committee believes that Operating Profit¹ is a better measure of trading performance and is a key headline figure used in the annual and half year reports.
- The Committee will continue to set demanding targets for both Operating Profit¹ and Guest Service. The Committee will set a threshold target at which point bonus will begin to accrue, with 42.5% of salary payable at Target and full pay-out at Stretch performance. The earnings opportunity at on-target is slightly lower than 2015 (50% of salary). Maximum opportunity remains at 100% of base salary.
- There will be no payout on the NPS element if profit is below a pre-determined threshold, which for FY 2016 is 98% of target operating profit. If this is achieved, the threshold level of payout will be 6.25%.

Operating profit¹ and NPS targets are considered to be commercially sensitive and will not be disclosed in advance. However, retrospective disclosure of targets and performance against them will be provided in next year's Directors' remuneration report.

Long Term Incentive Plans

• The Committee has decided to delay the grant of PRSP awards covering the 2016-18 performance period. This delay will allow the Committee further time to consider the structure of the PRSP performance condition, within the constraints of the agreed remuneration policy, to ensure that the measures and targets remain appropriate. Irrespective of the outcome of this review it is the intention that TSR will remain as a measure, accounting for at least 50% of any award and retaining the current comparator group. If significant changes to the current performance measures or targets are proposed then leading shareholders and shareholder representative bodies will be consulted prior to any awards being granted.

Non-Executive Directors' fee review

The fee applicable to the Chairman will remain at £285,000. Non-Executive Directors' fees also will remain unchanged.

Imelda Walsh

Chair of the Remuneration Committee

23 November 2015



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

Opinion on financial statements of Mitchells & Butlers plc In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 26 September 2015 and of the Group's and the Company's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise of the Group income statement, the Group statement of comprehensive income, the Group and Company balance sheets, the Group cash flow statement, the Group statement of changes in equity and the related sections 1 to 5 on the Group financial statements, and the related notes 1 to 10 on the Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained on page 38 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below, which are the same risks identified in the prior year, are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk

Valuation of the pub estate

As set out in note 3.1 the value of the pub estate is £4,242m.

Freehold and long leasehold

The accounting policy adopted and judgements used are described in section 3.1 to the financial statements.

This is considered to be a significant risk due to the judgements inherent within the valuation exercise. The total value of revalued properties as at 26 September 2015 is $\pounds 3,842m$. The revaluation exercise performed in the year has resulted in a net decrease in book value of £29m which includes an impairment charge of £54m recognised in the income statement. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels and comparable market transactions. An estimated multiple is derived for each of the Group's trading brands, which is then applied to the fair maintainable trade. In specific circumstances where this approach does not fairly represent the underlying value of the property, a spot valuation is applied.

Short leasehold

The accounting policy adopted and judgements used are described in section 3.1 and 3.3 to the financial statements. The total value of short leasehold properties as at 26 September 2015 is £182m (2014 £174m). Judgements in relation to expected trading levels, turnaround period for underperforming sites and discount rates are applied when calculating short leasehold property impairments. The Group recorded an impairment charge of £11.5m in the year.

How the scope of our audit responded to the risk

We worked with our property valuation specialists and management's external advisers to challenge the methodology and underlying assumptions used in the pub estate valuation. This included:

- assessing the appropriateness of minor changes to assumptions since the prior year, specifically the value assigned to fixtures and fittings;
- discussing the valuation process with management's external advisers
- obtaining evidence to support inputs to the model, including benchmarking valuations to comparable market transactions, in order to confirm whether the multiples being proposed were appropriate;
- reviewing the future projected income, by comparing both revenues and costs to available post conversion results; and
- challenging the supporting rationale for a sample of spot valuations and corroborating responses provided by management to external evidence where available.

Additionally we:

- tested the design and implementation of controls in relation to the revaluation exercise;
- compared the estimated fair maintainable trading levels to historical trading results for the last two years and investigated variances to determine if these were indicative of expected trading;
- tested the integrity of the data used in the valuations by agreeing a sample to
- assessed the competence, independence and integrity of management's $% \left(\frac{1}{2}\right) =\frac{1}{2}\left(\frac{1}{2}\right) \left(\frac{1}{2}\right) \left($ external advisers.

We challenged the assumptions used by management within the short leasehold impairment review. This included testing the integrity of the information used within the model by agreeing inputs back to source data including historical results and lease terms, and assessing the appropriateness of the discount rate through recalculation and performing sensitivity analysis.

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

continued

Risk

How the scope of our audit responded to the risk

Orchid acquisition accounting

The accounting policy adopted and judgements used are described in section 3.5 to the financial statements.

The Group acquired 173 pubs from the Orchid Group in July 2014 for consideration of £270m. Provisional fair values were reported in the prior year. As permitted by IFRS 3 management has finalised their acquisition accounting within the measurement period, resulting in a £5m reduction in property fair values to £265m and the recognition of a deferred tax asset of £12m. The principal assets acquired were freehold properties, a number of which had development potential. The acquisition accounting required the exercise of judgement to determine the appropriate fair values of the assets and liabilities including the assessment of the fair value of properties and the ability to access future

We assessed management's approach in performing a detailed analysis attributing values to each site based on an assessment of the future trading format for that site. This included challenging management's assumption in respect of the proposed trading formats, multiples and the use of projected cash flows when assessing Orchid sites with development potential.

We also assessed the appropriateness and completeness of other potential fair value adjustments including any goodwill and intangible assets recognised and engaged our tax specialists to assess the availability of tax losses.

Tax provisions and recognition of tax losses

The accounting policy adopted and judgements used are described in section 2.4 to the financial statements. This section describes the level of judgement exercised in valuing tax provisions recorded in respect of a number of uncertain tax positions, including the likely outcome of negotiations with and enquiries from tax authorities.

The Group also exercises judgement in determining the level of future taxable income to support the recognition of deferred tax assets. Deferred tax assets for losses of £24m (2014£25m) have been recognised in the year. In reaching the conclusion that these assets should be recognised management has assessed the probability that the losses will be available and that future taxable profits will be generated to utilise these losses.

We utilised our tax specialists to appraise the likely outcome of technical tax treatments and review correspondence with the tax authorities to assess the reasonableness of the provisions made.

We have challenged the assumptions made by management in respect of the deferred tax asset recognised, including making an assessment of the likely time period over which any asset recognised would be recovered. This included a review of whether recognition of losses is appropriate and future forecasts of taxable profits are achievable.

Accounting for defined benefit schemes

The accounting policy adopted and judgements used are described in section 4.5 to the financial statements. The total pension liability has decreased from £425m at 27 September 2014 to £350m at 26 September 2015.

The actuarial assumptions used in the measurement of the Group's net pension liability are inherently judgemental, such as the discount rate and inflation. In May 2014 the Company entered into a formal recovery plan to increase contributions to the pension scheme for the 10 year period to 2023. Included within the total pension liability above is a liability of £248m (2014 £232m) to reflect the commitment to making these contributions in line with the minimum funding requirements.

We used our actuarial specialists to test the actuarial assumptions used to calculating the net pension deficit. This included an assessment of the key assumptions described in section 4.5 of the financial statements to comparable market data. We recalculated the additional liability recognised in respect of the minimum funding requirement by discounting the cash flows which we agreed to the Group's approved schedule of contributions.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 50.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £9.4m, which is approximately 5% of profit before tax and exceptional items being acquisition costs, movements in the valuation of the property portfolio and short leasehold impairment (2014 £9m, determined on the same basis). These items are excluded due to their volatility and this is consistent with the Group's internal and external reporting to facilitate a better understanding of the underlying trading performance.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £180,000 (2014£180,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business and UK property business together accounting for 100% of the Group's total assets, 97% revenue and 98% operating profit in 2015. This audit work was performed directly by the Group engagement team. In 2014 we performed a full scope audit in respect of the UK retail operating business, UK property business and the German business ('ALEX') representing 100% coverage of the Group's total assets, revenue and operating profit. No issues were identified in the prior year audit in Germany, and no further matters were identified during our analytical procedures on ALEX in the current year, and therefore given the relative size of ALEX to the Group we consider the UK business provide sufficient audit assurance over the Group balances. Our audit work of the UK businesses was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.4m to £7.5m (2014 £0.4m to £6.5m). At the parent entity level we also tested the consolidation process.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors' remuneration to be audited has been properly prepared in accordance with the Companies Act 2006: and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Report on Directors' remuneration to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate governance statement

Under the Listing Rules we are also required to review the part of the corporate governance statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
 - otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Stephen Griggs FCA (Senior Statutory Auditor) for and on behalf of Deloitte LLP Chartered Accountants and Statutory A

Chartered Accountants and Statutory Auditor London, United Kingdom
23 November 2015

Group income statement For the 52 weeks ended 26 September 2015

		2015 2014 52 weeks 52 weeks			2014 52 weeks		
	Notes	Before exceptional items £m	Exceptional items ^a £m	Total £m	Before exceptional items	Exceptional items ^a £m	Total £m
Revenue	2.1	2,101	_	2,101	1,970	_	1,970
Operating costs before depreciation, amortisation and movements in the							
valuation of the property portfolio	2.2, 2.3	(1,662)	_	(1,662)	(1,548)	(12)	(1,560)
Net profit arising on property disposals	2.2, 2.3	_	7	7	_	_	_
EBITDA ^b		439	7	446	422	(12)	410
Depreciation, amortisation and movements							
in the valuation of the property portfolio	2.2, 2.3	(111)	(65)	(176)	(109)	(37)	(146)
Operating profit/(loss)	2.1	328	(58)	270	313	(49)	264
Finance costs	4.3	(130)	_	(130)	(132)	_	(132)
Finance revenue	4.3	1	_	1	1	_	1
Net pensions finance charge	4.3, 4.5	(15)	_	(15)	(10)	_	(10)
Profit/(loss) before tax		184	(58)	126	172	(49)	123
Tax (expense)/credit	2.2, 2.4	(37)	14	(23)	(38)	8	(30)
Profit/(loss) for the period		147	(44)	103	134	(41)	93
Earnings per ordinary share							
– Basic	2.5	35.7p		25.0p	32.6p		22.6p
– Dasic – Diluted	2.5	35.5p		24.9p	32.4p		22.5p

The notes on pages 79 to 108 form an integral part of these financial statements.

All results relate to continuing operations.

a. Exceptional items are explained and analysed in note 2.2.b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

Group statement of comprehensive income For the 52 weeks ended 26 September 2015

	Notes	2015 52 weeks £m	2014 52 weeks £m
Profit for the period		103	93
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain on revaluation of the property portfolio	3.1	25	62
Remeasurement of pension liability	4.5	6	(214)
Tax relating to items not reclassified	2.4	(9)	33
		22	(119)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(1)	(1)
Cash flow hedges:			
– Losses arising during the period	4.4	(86)	(59)
 Reclassification adjustments for items included in profit or loss 	4.4	31	48
Tax relating to items that may be reclassified	2.4	11	2
		(45)	(10)
Other comprehensive loss after tax		(23)	(129)
Total comprehensive profit/(loss) for the period		80	(36)

The notes on pages 79 to 108 form an integral part of these financial statements.

Group balance sheet 26 September 2015

		2015	2014
	Notes	£m	restated* £m
Assets			
Goodwill and other intangible assets	3.4	10	9
Property, plant and equipment	3.1	4,242	4,237
Lease premiums		2	1
Deferred tax asset	2.4	156	161
Derivative financial instruments	4.4	19	5
Total non-current assets		4,429	4,413
Inventories	3.2	24	27
Trade and other receivables	3.2	46	60
Other cash deposits	4.1	120	_
Cash and cash equivalents	4.1	163	255
Total current assets		353	342
Total assets		4,782	4,755
Liabilities			
Pension liabilities	4.5	(46)	(45)
Trade and other payables	3.2	(317)	(299)
Current tax liabilities		(15)	(21)
Borrowings	4.2	(214)	(208)
Derivative financial instruments	4.4	(43)	(45)
Total current liabilities		(635)	(618)
Pension liabilities	4.5	(304)	(380)
Borrowings	4.2	(1,960)	(2,012)
Derivative financial instruments	4.4	(253)	(196)
Deferred tax liabilities	2.4 3.3	(349)	(352) (12)
Long-term provisions Total non-current liabilities	2.2	(10)	. ,
Total liabilities		(2,876)	(2,952)
		(3,511)	(3,570)
Net assets		1,271	1,185
Equity			
Called up share capital	4.7	35	35
Share premium account	4.7	26	24
Capital redemption reserve	4.7	3	3
Revaluation reserve	4.7	938	918
Own shares held	4.7	(1)	(4)
Hedging reserve	4.7	(240)	(196)
Translation reserve	4.7	10	11
Retained earnings		500	394
Total equity		1,271	1,185

^{*} Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).

The notes on pages 79 to 108 form an integral part of these financial statements.

Signed on behalf of the Board on 23 November 2015

Phil Urban **Tim Jones**

Group statement of changes in equity For the 52 weeks ended 26 September 2015

At 26 September 2015	35	26	3	938	(1)	(240)	10	500	1,271
Credit in respect of share-based payments	_	_	_	_	_	_	_	2	2
Release of own shares	_	_	_	_	3	_	_	(1)	2
Share capital issued	_	2	_	_	_	_	_	_	2
Total comprehensive income/(expense)	_	_	_	20	_	(44)	(1)	105	80
Other comprehensive income/(expense)	_	_	_	20	_	(44)	(1)	2	(23)
Profit for the period	_	_	_	_	_	_	_	103	103
At 27 September 2014	35	24	3	918	(4)	(196)	11	394	1,185
Disposal of properties	_	_	_	(1)	_	_	_	1	_
Credit in respect of share-based payments	_	_	_	_	_	_	_	2	2
Release of own shares	_	_	_	_	2	_	_	(1)	1
Purchase of own shares	_	_	_	_	(2)	_	_	_	(2)
Share capital issued	_	1	_	_	_	_	_	_	1
Total comprehensive income/(expense)	_	_	_	50	_	(9)	(1)	(76)	(36)
Other comprehensive income/(expense)	_	_	_	50	_	(9)	(1)	(169)	(129)
Profit for the period	_	_	_	_	_	_	_	93	93
At 28 September 2013	35	23	3	869	(4)	(187)	12	468	1,219
	capital £m	account £m	reserve £m	reserve £m	neia £m	reserve £m	reserve £m	earnings £m	equity £m
	up share	premium	redemption	Revaluation	shares held	Hedging	Translation	Retained	Total
	Called	Share	Capital		Own				

Group cash flow statement For the 52 weeks ended 26 September 2015

	Notes	2015 52 weeks £m	2014 52 weeks £m
Cash flow from operations			
Operating profit		270	264
Add back: operating exceptional items	2.2	58	49
Operating profit before exceptional items Add back:		328	313
Depreciation of property, plant and equipment	2.3	109	108
Amortisation of intangibles	2.3	2	1
Cost charged in respect of share-based payments	4.6	2	2
Administrative pension costs	4.5	2	2
Operating cash flow before exceptional items, movements			
in working capital and additional pension contributions		443	426
Decrease/(increase) in inventories		3	(1)
Decrease in trade and other receivables		22	15
Increase/(decrease) in trade and other payables		21	(3)
(Decrease)/increase in provisions		(2)	3
Additional pension contributions	4.5	(86)	(49)
Cash flow from operations before exceptional items		401	391
Cash flow from operating exceptional items		(6)	(5)
Interest paid		(129)	(137)
Interest received		2	2
Tax paid		(25)	(34)
Net cash from operating activities		243	217
Investing activities	2.5		(2.50)
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	3.5	(1)	(269)
Cash acquired on acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited		-	11
Purchases of property, plant and equipment		(157)	(156)
Purchases of intangible assets		(3)	(6)
Payment of lease premium Proceeds from sale of property, plant and equipment		(2) 6	- 4
Transfers (to)/from other cash deposits		(120)	25
Net cash used in investing activities		(277)	(391)
Financing activities			
Issue of ordinary share capital		2	1
Purchase of own shares		_	(2)
Proceeds on release of own shares		1	1
Repayment of principal in respect of securitised debt	4.2	(61)	(58)
Drawings under liquidity facility	4.2		147
Net cash (used in)/from financing activities		(58)	89
Net decrease in cash and cash equivalents		(92)	(85)
Cash and cash equivalents at the beginning of the period		255	340
Cash and cash equivalents at the end of the period	4.1	163	255

The notes on pages 79 to 108 form an integral part of these financial statements.

Mitchells & Butlers plc
Annual Report and Accounts 2015

Notes to the financial statements

Section 1 – Basis of preparation

General information

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

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

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. Both the periods ended 26 September 2015 and 27 September 2014 include 52 trading weeks.

The financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

The Group's accounting policies have been applied consistently.

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. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

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

Restatement

On 15 June 2014 the Group acquired all of the issued share capital in Orchid Pubs & Dining Limited and Midco 1 Limited. At 27 September 2014, a provisional fair valuation of the identifiable assets and liabilities was recorded.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of the deferred tax asset acquired and the value of land and buildings. In addition, deferred consideration outstanding at 27 September 2014 has also been finalised. The result of these changes reduces the provisional goodwill from £9m to £nil.

Further details are provided in note 3.5.

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 Strategic report and Business review on pages 2 to 33. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Business review.

In addition, note 4.4 to the financial statements includes 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 4.2 to the financial statements, the Group's financing is based upon securitised debt.

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

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.

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. 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.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.37 (2014 £1 = €1.22), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.36 (2014 £1 = \$1.28) and £1 = \$1.52 (2014 £1 = \$1.62) respectively.

Section 1 – Basis of preparation continued

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:

Accounting standard	Requirement	Impact on financial statements
IFRS 10 Consolidated Financial Statements	IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. IFRS 10 changes the definition of control over an investee such that control applies when an investor a) has power over the investee, b) is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.	The adoption of this standard has not resulted in a change in the assessment of control over each subsidiary in the Group and there is no impact on the financial statements.
IFRS 12 Disclosure of Interests in Other Entities	IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements and/or associates.	As the Group only has interests in subsidiaries and there are no non-controlling interests there is no significant impact on the disclosures required.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The Group has adopted the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current period. The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal.	These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurement. The application of these amendments has had no material impact on the disclosures provided in note 3.4.
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The Group has adopted the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current period. The amendments to IAS 39 provide relief from the requirement	As the Group does not have any derivatives that are subject to novation, the adoption of these amendments has had no impact on the disclosures or

Amendments to and Financial Liabilities

effectiveness The Group has adopted the IAS 32 Offsetting amendments to IAS 32 Offsetting
Financial Assets Financial Assets and Financial Liabilities for the first time in the current period. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off', and 'simultaneous realisation and settlement'.

to discontinue hedge accounting when

a derivative designated as a hedging

circumstances. The amendments also

clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the

instrument is novated under certain

novation should be included in the assessment and measurement of hedge

> The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Group's consolidated financial statements.

on the amounts recognised

in the Group's consolidated

financial statements.

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

Accounting standard	Effective date
Amendments to IFRSs as part of the Annual Improvements to IFRSs 2010 to 2012 Cycle issued in December 2013	The Annual Improvements to IFRSs 2010 to 2012 have made a number of amendments to IFRSs. The amendments that may impact on the Group are amendments to IFRS 2 Share Based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.
	The amendments have an effective date of 1 July 2014*.
IAS 19 (amendments) Defined Benefit Plans: Employee Contributions	1 July 2014*
IAS 27 (amendments) Equity Method in Separate Financial Statements	1 January 2016
IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
IFRS 9 Financial Instruments	1 January 2018

* As the EU has not yet endorsed these standards, they have not been adopted by the Group in the current period.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods. Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Critical accounting judgements and estimates

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

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Details of the Group's critical accounting judgements and estimates are described within the accounting policy section in each of the notes to the financial statements listed below:

- note 2.2 Exceptional items
- note 2.4 Taxation
- note 3.1 Property, plant and equipment
- note 3.4 Goodwill
- note 3.5 Acquisitions
- note 4.5 Pensions

Section 2 – Results for the year

2.1 Segmental analysis

Accounting policies

Revenue recognition

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

The majority of revenue comprises food and beverages sold in the Group's businesses. 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.

Operating segments

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

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

Segmental information

	Retail operating	Retail operating business		Property business		
	2015 52 weeks £m	2014 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m
Revenue	2,101 ^a	1,970ª	_		2,101	1,970
EBITDA pre-exceptionals	219	221	220 ^b	201 ^b	439	422
Operating profit pre-exceptionals	121	127	207	186	328	313
Exceptional items (note 2.2)					(58)	(49)
Operating profit					270	264
Net finance costs					(144)	(141)
Profit before tax					126	123
Tax expense					(23)	(30)
Profit for the period					103	93

- a. Revenue includes other income of £6m (2014£7m) in respect of franchise operations and £6m (2014£nil) in respect of sales of development properties
- $b. \ \ The EBITDA \ pre-exceptionals \ of the property \ business \ relates \ entirely \ to \ rental \ income \ received \ from \ the \ retail \ operating \ business.$

Geographical 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	
	2015 52 weeks	2014 52 weeks restated*	2015 52 weeks	2014 52 weeks	2015 52 weeks	2014 52 weeks restated*
	£m	£m	£m	£m	£m	£m
Revenue – sales to third parties	2,040	1,906	61	64	2,101	1,970
Segment non-current assets ^a	4,245	4,240	9	7	4,254	4,247

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

 * Segment non-current assets have been restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).

Notes to the financial statements

Section 2 – Results for the year continued

2.2 Exceptional items

Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes exceptional items, including the impact of related tax. 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 and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties and restructuring costs.

Critical accounting judgements and estimates

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

The items identified in the current period are as follows:

		2015 52 weeks	2014 52 weeks
	Notes	£m	£m
Operating exceptional items			
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	а	-	(12)
Net profit arising on property disposals	b	7	_
Movement in the valuation of the property portfolio:			
– Impairment arising from the revaluation		(54)	(25)
- Other impairment	C	(11)	(11)
– Impairment of lease premium		_	(1)
Net movement in the valuation of the property portfolio		(65)	(37)
Total exceptional items before tax		(58)	(49)
Tax credit relating to above items		14	8
Total exceptional items after tax		(44)	(41)

 $a. \ \ Relates to integration costs and legal and professional fees incurred in the acquisition of Orchid Pubs \& Dining Limited and Midco 1 Limited on 15 June 2014.$

2.3 Operating costs

Accounting policies

Operating profit

Operating profit is stated after charging operating exceptional costs but before investment income and finance costs.

Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in other receivables.

Operating leases

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

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

b. Includes the release of a £5m accrual for costs in relation to the disposal of properties in prior periods.

c. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.

Operating costs are analysed as follows:

	2015 52 weeks £m	2014 52 weeks £m
Raw materials and consumables recognised as an expense	569	542
Changes in inventory of finished goods and work in progress	3	(1)
Employee costs	595	550
Hire of plant and machinery	24	21
Property operating lease costs	54	53
Other costs	417	395
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	1,662	1,560
Depreciation of property, plant and equipment (note 3.1)	109	108
Amortisation of intangible assets (note 3.4)	2	1
Net movement in the valuation of the property portfolio (note 2.2)	65	37
Depreciation, amortisation and movements in the valuation of the property portfolio	176	146
Net profit arising on property disposals	(7)	_
Total operating costs/(income)	1,831	1,706
Employee costs		

	2015 52 weeks £m	2014 52 weeks £m
Wages and salaries	548	505
Share-based payments (note 4.6)	2	2
Total wages and salaries	550	507
Social security costs	38	36
Pensions (note 4.5)	7	7
Total employee costs	595	550

The average number of employees including part-time employees was 43,492 retail employees (2014 40,561) and 1,000 support employees (2014 953).

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, $long-term\ incentive\ scheme\ entitlements\ and\ their\ interests\ in\ share\ options\ is\ given\ in\ the\ Report\ on\ Directors'\ remuneration\ on\ pages\ 52$ to 69.

Lease commitments

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. Generally they do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

Operating lease commitments - Group as lessee

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

	2015	2014
	£m	£m
Due within one year	48	47
Between one and five years	179	174
After five years	448	452
	675	673
Total future minimum lease rental receipts under non-cancellable operating leases are as follows:	2015 £m	2014 £m
Due within one year	8	7
Between one and five years	24	22
After five years	47	47
	79	76

Lease income recognised in the year was as follows:

	2015 52 weeks	2014 52 weeks
	£m	£m
Standard lease income	9	9

Notes to the financial statements

Section 2 – Results for the year continued

2.3 Operating costs continued

Auditor remuneration

	2015 52 weeks £m	2014 52 weeks £m
Fees payable to the Group's auditor for the:		
 audit of the consolidated Group financial statements 	0.1	0.1
– audit of the Company's subsidiaries financial statements	0.3	0.3
Total audit fees	0.4	0.4
Other fees to auditors:		
– audit related assurance services	0.1	0.1
– corporate finance and tax advisory services	0.1	0.1
Total non-audit fees	0.2	0.2

Auditor's remuneration of £0.3m (2014 £0.3m) was paid in the UK and £0.1m (2014 £0.1m) was paid in Germany.

2.4 Taxation

Accounting policy

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

Deferred tax 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.

Critical accounting judgements and estimates

The calculation of the Group's total tax charge involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until a resolution has been reached with the relevant tax authority. The Group therefore recognises estimated liabilities for actual and anticipated enquiries from tax authorities. Amounts are accrued based on management's interpretation of specific tax law and the likelihood of settlement, which requires a degree of judgement.

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. Recognition of deferred tax assets, therefore, includes judgements regarding the timing and level of future taxable income.

Taxation - income statement

	2015 52 weeks £m	2014 52 weeks £m
Current tax:		
– UK corporation tax	(21)	(29)
– Amounts over/(under) provided in prior periods	3	(9)
Total current tax charge	(18)	(38)
Deferred tax:		
 Origination and reversal of temporary differences 	(6)	1
 Adjustments in respect of prior periods – tax losses 	4	_
– Adjustments in respect of prior periods – other	(3)	7
Total deferred tax (charge)/credit	(5)	8
Total tax charged in the income statement	(23)	(30)
Further analysed as tax relating to:		
Profit before tax and exceptional items	(37)	(38)
Exceptional items	14	8
	(23)	(30)

The tax charge in the income statement for the period is lower (2014 higher) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2015 52 weeks £m	2014 52 weeks £m
Profit before tax	126	123
Taxation charge at the UK standard rate of corporation tax of 20.5% (2014 22.0%)	(26)	(27)
Expenses not deductible	(2)	(3)
Income not taxable	2	2
Adjustments in respect of prior periods	4	(2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1)	_
Total tax charge in the income statement	(23)	(30)

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

	2015 52 weeks £m	2014 52 weeks £m
Deferred tax in the income statement:		
Accelerated capital allowances	_	2
Retirement benefit obligations	(14)	(8)
Rolled over and held over gains	(1)	2
Depreciated non-qualifying assets	_	_
Unrealised gains on revaluations	11	6
Tax losses – UK	(4)	6
Tax losses – overseas	3	_
Total deferred tax (charge)/credit in the income statement	(5)	8

Taxation - other comprehensive income

	2015 52 weeks £m	2014 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised gains due to revaluations – revaluation reserve	(5)	(12)
– Unrealised gains due to revaluations – retained earnings	(3)	2
– Re-measurement of pension liability	(1)	43
	(9)	33
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– Losses arising during the period	17	12
– Reclassification adjustments for items included in profit or loss	(6)	(10)
	11	2
Total tax credit recognised in other comprehensive income	2	35

Taxation - balance sheet

The deferred tax assets and liabilities recognised in the balance sheet are shown below:

	2015	2014 restated*
	£m	restated." £m
Deferred tax liability:		
Accelerated capital allowances	(44)	(44)
Rolled over and held over gains	(137)	(137)
Unrealised gains on revaluations	(161)	(164)
Depreciated non-qualifying assets	(7)	(7)
Total deferred tax liability	(349)	(352)
Deferred tax asset:		
Retirement benefit obligations (note 4.5)	70	85
Derivative financial instruments	59	48
Tax losses – UK	21	25
Tax losses – overseas	3	_
Share-based payments**	3	3
Total deferred tax asset	156	161
Total	(193)	(191)

^{*} Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).
** Tax on share-based payments is recognised directly in equity in the statement of changes in equity.

Notes to the financial statements

Section 2 – Results for the year continued

2.4 Taxation continued

Unrecognised tax losses and tax allowances

At the balance sheet date the Group had unused tax allowances of £52m (2014 £47m) and unused losses of £nil (2014 £13m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £10m (2014 £9m) and tax losses with a value of £nil (2014 £4m) because it is not certain that future taxable profits will be available against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

It was announced in the 2015 Summer Budget that the main rate of corporation tax would be reduced by 1% to 19% on 1 April 2017 and by a further 1% to 18% on 1 April 2020. Neither of these changes had been substantively enacted at the balance sheet date and therefore the effects are not included in these financial statements.

The reduction in the main rate of corporation tax is likely to result in a reduction in future years in the net deferred tax liability provided at the balance sheet date. The full impact of these changes has not yet been quantified.

2.5 Earnings per share

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

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

Adjusted earnings per ordinary share amounts are presented before exceptional items (see note 2.2) in order to allow a better understanding of the underlying trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 26 September 2015:			
Profit/EPS	103	25.0p	24.9p
Exceptional items, net of tax	44	10.7p	10.6p
Adjusted profit/EPS	147	35.7p	35.5p
52 weeks ended 27 September 2014:			
Profit/EPS	93	22.6p	22.5p
Exceptional items, net of tax	41	10.0p	9.9p
Adjusted profit/EPS	134	32.6p	32.4p
The weighted average number of ordinary shares used in the calculations above are as follows:			
		2015 52 weeks £m	2014 52 weeks £m
For basic EPS calculations		412	411
Effect of dilutive potential ordinary shares:			
– Contingently issuable shares		1	1
– Other share options		1	1
For diluted EPS calculations		414	413

At 26 September 2015, 379,182 (2014 816,685) 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.

Mitchells & Butlers plc
Annual Report and Accounts 2015

Notes to the financial statements

Section 3 – Operating assets and liabilities

3.1 Property, plant and equipment

Accounting policies

Property, plant and equipment

The majority of the Group's freehold and long leasehold licensed properties are re-valued annually and are therefore held at fair value less depreciation. Short leasehold properties, unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful lives of items of property, plant and equipment and is commenced when an asset is ready for its intended use.

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 annually.

Leasehold properties are depreciated over the unexpired term of the lease where this is less than 50 years.

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

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

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

Disposals

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

Revaluation

The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; and estimates of fair maintainable trade. Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Impairment

The carrying values of property, plant and equipment which are not re-valued 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised 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.

Critical accounting judgements and estimates

The revaluation includes a significant judgement in respect of valuation multiples, which are determined via third-party inspections. An estimate of fair maintainable trade and the resale value of tenant's fixtures and fittings is also required in determining final site valuations. Determining fair maintainable trade requires judgements to be made in respect of future projected income levels.

The carrying values of property, plant and equipment which are not re-valued to fair market value are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recovered. When a review for impairment is conducted, the recoverable amount is determined based on value in use calculations. These calculations require management judgement around the selection of a suitable discount rate. Value in use calculations also require management to estimate both future cash flows, via the application of growth assumptions, and future maintenance capital expenditure.

Depreciation and amortisation is provided so as to write down the assets to their residual values over their estimated useful lives. The selection of these residual values and estimated lives requires the exercise of management judgement.

Section 3 – Operating assets and liabilities continued

3.1 Property, plant and equipment continued

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

Cost or valuation	£m	equipment £m	Total £m
COSE OF VARIABLED F			
At 28 September 2013	3,535	969	4,504
Exchange differences	(1)	(1)	(2)
Acquired through business combinations (note 3.5) (restated*)	265	9	274
Additions	67	90	157
Disposals ^a	(39)	(107)	(146)
Revaluation ^b	27	(1)	26
At 27 September 2014 (restated*)	3,854	959	4,813
Exchange differences	(1)	_	(1)
Additions	55	103	158
Disposals ^a	(31)	(64)	(95)
Revaluation ^b	(34)	(6)	(40)
At 26 September 2015	3,843	992	4,835
Depreciation			
At 28 September 2013	129	480	609
Exchange differences	(1)	(1)	(2)
Provided during the period	18	90	108
Disposals ^a	(34)	(105)	(139)
At 27 September 2014	112	464	576
Exchange differences	(1)	(1)	(2)
Provided during the period	20	89	109
Disposalsa	(26)	(64)	(90)
At 26 September 2015	105	488	593
Net book value			
At 26 September 2015	3,738	504	4,242
At 27 September 2014 (restated*)	3,742	495	4,237
At 28 September 2013	3,406	489	3,895

Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).

Certain assets with a net book value of £40m (2014 £39m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Cost at 26 September 2015 includes £9m (2014 £4m) of assets in the course of construction.

Revaluation/impairment

The freehold and long leasehold properties have been valued at market value, as at 26 September 2015 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold properties. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold properties would generate approximately an £8 movement in their valuation.

The carrying values of property, plant and equipment which are not re-valued to fair market value have been reviewed for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7% (2014 8%).

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

b. The impact of the property revaluation is a net book value decrease of £29m (2014 increase of £37m) comprising an impairment of £54m (2014 £25m) net of a revaluation reserve credit of £25m (2014 £62m) shown in the Group statement of comprehensive income. In addition, a review of the short leasehold and unlicensed property estate has resulted in an impairment of £11m (2014 £11m) (see note 2.2).

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

	2015 52 weeks £m	2014 52 weeks £m
Income statement		
Revaluation loss charged as an impairment	(90)	(75)
Reversal of past impairments	36	50
Total impairment arising from the revaluation	(54)	(25)
Impairment of short leasehold and unlicensed properties	(11)	(11)
	(65)	(36)
Revaluation reserve		
Unrealised revaluation surplus	141	169
Reversal of past revaluation surplus	(116)	(107)
	25	62
Net (decrease)/increase in property, plant and equipment	(40)	26

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

The key inputs to valuation on property, plant and equipment are as follows:

	EBITDA multiple range ^a			Net book
26 September 2015	Low	High	Number of pubs	value⁵ £m
Freehold properties	7.0	12.0	1,363	3,566
Long leasehold properties	5.0	10.0	97	276
Total revalued properties	5.0	12.0	1,460	3,842
Short leasehold properties Unallocated assets ^c				182 218
Total property, plant and equipment				4,242

	EBITDA multiple range ^a		Net book	
27 September 2014 (restated*)	Low	High	Number of pubs	value ^b £m
Freehold properties	7.0	12.0	1,247	3,420
Long leasehold properties	5.0	10.0	100	304
Total revalued properties	5.0	12.0	1,347	3,724
Short leasehold properties				174
Unallocated assets ^c				65
Orchid properties acquired ^d				274
Total property, plant and equipment				4,237

- * Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).
- a. In a small number of instances the value of property derived purely from an income approach misrepresents the underlying property value. In these cases a spot value has been applied to the property rather than a value derived from a multiple applied to the EBITDA.
 - The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,710m and £200m respectively (2014£2,716m and £213m).
- $c. \ \ Unallocated \ assets \ primarily \ includes \ unlicensed \ properties \ and \ freehold \ properties \ excluded \ from \ revaluation \ as \ a \ result \ of \ investment \ plans.$
- d. A separate valuation exercise was undertaken for the acquired Orchid sites as part of the fair value accounting exercise (see note 3.5).

Included within property, plant and equipment are assets with a net book value of £3,588m (2014 £3,597m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

In addition to the above, premiums paid on acquiring a new lease are classified separately in the balance sheet. At 26 September 2015 an amount of £2m (2014 £1m) was included in the balance sheet.

Capital commitments

	2015	2014
	£m	£m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	23	24

Notes to the financial statements

Section 3 – Operating assets and liabilities continued

3.2 Working capital

Inventories

Accounting policy

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

Inventories can be analysed as follows:

	2015	2014
	£m	£m
Work in progress ^a Goods held for resale	1	3
Goods held for resale	23	24
Total inventories	24	27

a. Work in progress is in respect of property developments

Trade and other receivables

Accounting policy

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

Trade and other receivables can be analysed as follows:

	2015 £m	2014 £m
Trade receivables	3	3
Other receivables	11	21
Prepayments	14	27
Other financial assets ^a	18	9
Total trade and other receivables	46	60

 $a. \ \ Other financial \ assets \ relate \ to \ cash \ collater \ alphovided \ by \ a \ swap \ counterparty \ (see \ note \ 4.4).$

All amounts fall due within one year.

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

Credit risk is considered in note 4.4.

Trade and other payables

Accounting policy

Trade and other payables are recognised at original cost.

Trade and other payables can be analysed as follows:

	2015 £m	2014 restated* £m
Trade payables	94	100
Other taxation and social security	74	69
Accrued charges	103	95
Other payables	28	26
Other financial liabilities ^a	18	9
Total trade and other payables	317	299

^{*} Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

 $a. \ \ Other financial \ liabilities \ relate \ to \ cash \ collateral \ provided \ by \ a \ swap \ counterparty \ (see \ note \ 4.4).$

Property

3.3 Provisions

Accounting policy

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.

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

Provisions

Provisions can be analysed as follows:

leases
£m
9
(1)
7
(3)
12
(3)
5
(4)
10

3.4 Goodwill and other intangible assets

Accounting policies

Business combinations and goodwill

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39 or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

Section 3 – Operating assets and liabilities continued

3.4 Goodwill and other intangible assets continued

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

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. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider 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. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss 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.

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 seven years with the majority being five years.

Critical accounting judgements and estimates

The Group is required to test annually or as triggering events occur, whether the value of goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations, which requires management to estimate future cash flows. The use of this method requires judgement around whether an impairment review is triggered and in the selection of a suitable discount rate in order to calculate the present value of future cash flows.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 28 September 2013	7	4	11
Additions	_	6	6
Acquired through business combinations (note 3.5) (restated)*	_	_	_
Disposals ^a	_	(2)	(2)
At 27 September 2014 (restated)*	7	8	15
Additions	_	3	3
Disposals ^a	_	(1)	(1)
At 26 September 2015	7	10	17
Accumulated amortisation and impairment At 28 September 2013 Provided during the period Disposalsa At 27 September 2014	5 - - 5	1 (1)	6 1 (1)
At 27 September 2014)	2	6
Provided during the period Disposals ^a	_	(1)	2 (1)
At 26 September 2015	5	2	7
Net book value At 26 September 2015	2	8	10
At 27 September 2014 (restated)*	2	7	9
At 28 September 2013	2	3	5

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

^{*} Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 3.5).

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

Goodwill has been tested for impairment on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 7% (2014 8%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 2% (2014 2%) growth per annum.

3.5. Acquisitions

On 15 June 2014 the Group acquired all of the issued share capital in Orchid Pubs & Dining Limited and Midco 1 Limited.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of the deferred tax asset acquired and the value of land and buildings.

In addition, deferred consideration outstanding at 27 September 2014 has also been finalised. The result of these changes reduces the provisional goodwill from £9m to £nil.

Critical accounting judgements and estimates

Management used judgement to determine the fair value of identifiable assets and liabilities acquired. Key estimates related to the value assigned to the property and the recognition and measurement of deferred tax assets and liabilities. Property valuation was determined by considering the estimated projected level of trading which was used to determine the fair maintainable trade. A key judgement was also made in relation to the property multiplier applied including the use of the buildings and consideration of the value a market participant would assign to the assets at the date of the acquisition. Judgements were made in relation to the recoverability of other balance sheet assets including the likelihood of future taxable income which would allow recognition of a deferred tax asset.

The adjustments to the provisional amounts recognised during the measurement period are as follows:

	As reported at 27 September 2014	Adjustments to provisional values £m	Restated £m
Land and buildings	270	(5)	265
Fixtures, fittings and equipment	9	_	9
Inventory	2	_	2
Cash and cash equivalents	11	_	11
Trade and other receivables	5	_	5
Trade and other payables	(26)	_	(26)
Deferred tax asset	_	12	12
Deferred tax liability	(9)	1	(8)
Net identifiable assets	262	8	270
Goodwill	9	(9)	_
Total cash consideration	271	(1)	270
Net cash outflow arising on acquisition:			
Cash consideration	271	(1)	270
Less: deferred consideration	(2)	1	(1)
Less: cash and cash equivalents acquired	(11)	_	(11)
	258	_	258

As a result of the acquisition accounting being finalised, the Group has restated the comparative amounts in the balance sheet as follows:

	As reported at 27 September 2014 £m	Adjustments to provisional values £m	Restated £m
Goodwill and other intangible assets	18	(9)	9
Property, plant and equipment	4,242	(5)	4,237
Trade and other payables	(300)	1	(299)
Deferred tax asset	149	12	161
Deferred tax liability	(353)	1	(352)

Notes to the financial statements

Section 4 – Capital structure and financing costs

4.1 Net debt

Accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Net debt

	2015	2014
	£m	£m
Cash and cash equivalents	163	255
Other cash deposits	120	_
Securitised debt (note 4.2)	(2,027)	(2,073)
Liquidity facility (note 4.2)	(147)	(147)
Derivatives hedging balance sheet debt ^a (note 4.2)	21	7
	(1,870)	(1,958)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US\$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt

	2015 52 weeks £m	2014 52 weeks £m
Net decrease cash and cash equivalents	(92)	(85)
Add back cash flows in respect of other components of net debt:		
Transfers to/(from) other cash deposits	120	(25)
Repayment of principal in respect of securitised debt	61	58
Drawings under liquidity facility	_	(147)
Decrease/(increase) in net debt arising from cash flows	89	(199)
Movement in capitalised debt issue costs net of accrued interest	(1)	_
Decrease/(increase) in net debt	88	(199)
Opening net debt	(1,958)	(1,759)
Closing net debt	(1,870)	(1,958)

4.2 Borrowings

Accounting policy

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.

Borrowings can be analysed as follows:

	2015 £m	2014 £m
Current		
Securitised debt ^{a,b}	67	61
Liquidity facility	147	147
Total current	214	208
New summer		
Non-current Securitised debt ^{a,b}	1,960	2,012
Total borrowings	2,174	2,220

a. Further details of the assets pledged as security against the securitised debt are given on page 89.

b. Stated net of deferred issue costs.

	2015 £m	2014 £m
Analysis by year of repayment		
Due within one year or on demand	214	208
Due between one and two years	95	73
Due between two and five years	263	242
Due after five years	1,602	1,697
Total borrowings	2,174	2,220

Securitised debt

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited ('MAB Retail'). On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consisted of 10 tranches as follows:

	Initial		Principal	Principal Effective Principal outst		Principal outstanding		Principal outstanding	
Tranche	principal borrowed £m	Interest	repayment period (all by instalments)	interest rate %	26 September 2015 £m	27 September 2014 £m	Expected WAL ^a		
A1N	200	Floating	2011 to 2028	6.21 ^b	161	170	7 years		
A2	550	Fixed-5.57%	2003 to 2028	6.01	292	309	7 years		
A3N	250	Floating	2011 to 2028	6.29b	201°	212°	7 years		
A4	170	Floating	2016 to 2028	5.97 ^b	170	170	8 years		
AB	325	Floating	2020 to 2032	5.74 ^b	325	325	13 years		
B1	350	Fixed-5.97%	2003 to 2023	6.12	151	175	4 years		
B2	350	Fixed-6.01%	2015 to 2028	6.12	350	350	9 years		
C1	200	Fixed-6.47%	2029 to 2030	6.56	200	200	14 years		
C2	50	Floating	2033 to 2034	6.47 ^b	50	50	18 years		
D1	110	Floating	2034 to 2036	6.68 ^b	110	110	20 years		
	2,555				2,010	2,071			

- a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.
- b. After the effect of interest rate swaps.
 c. A3N notes are US\$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £222m (2014£219m).

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

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

Tranche	Interest	Margin
A1N	3 month LIBOR	0.45%
A3N	3 month US\$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.1% (2014 6.1%) 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 Limited, 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 26 September 2015, Mitchells & Butlers Retail Limited had cash and cash equivalents of £108m (2014 £78m) which were governed by the covenants associated with the securitisation. Of this amount £36m (2014£36m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.2 Borrowings continued

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

	2015 £m	2014 £m
Principal outstanding at beginning of period	2,078	2,137
Principal repaid during the period	(61)	(58)
Exchange on translation of dollar loan notes	14	(1)
Principal outstanding at end of period	2,031	2,078
Deferred issue costs	(8)	(9)
Accrued interest	4	4
Carrying value at end of period	2,027	2,073

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. As a result of the decrease in credit rating of one of the counterparties, the Group was obliged to draw that counterparty's portion of the facility during the prior period. The amount drawn at 26 September 2015 is £147m (27 September 2014 £147m). These funds are charged under the terms of the securitisation and are not available for use in the wider Group.

The facility, which is not available for any other purpose, is sized to cover 18 months debt service.

Unsecured revolving credit facilities

During the prior period, the Group entered into two revolving credit facilities of £75m each, available for general corporate purposes. The amount drawn at 26 September 2015 is £nil (2014 £nil). Both facilities expire on 31 December 2017.

4.3 Finance costs and revenue

	2015 52 weeks £m	2014 52 weeks £m
Finance costs		
Interest on securitised and other debt	(130)	(132)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 4.5)	(15)	(10)

4.4 Financial instruments

Accounting policies

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

Financial assets

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Derecognition of financial assets and liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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 Financial Instruments: Recognition and Measurement are met. Derivative financial instruments are not used for trading or speculative purposes.

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

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

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

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

Equity instruments

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

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.4 Financial instruments continued

Financial risk management

Financial risk is managed by 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 annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

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

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

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with two unsecured revolving credit facilities of £75m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury.

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

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. Trade and other payables (note 3.2) are short-term and excluded from the table.

	Within 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	More than 5 years £m	Total £m
26 September 2015 ^a Fixed rate:							
Securitised debt ^b Floating rate:	(188)	(193)	(194)	(193)	(196)	(2,276)	(3,240)
Liquidity facility	(147)	_	_	-	_	_	(147)
27 September 2014 ª Fixed rate:							
Securitised debt ^b	(186)	(188)	(193)	(194)	(193)	(2,472)	(3,426)
Floating rate: Liquidity facility	(147)	_	_		_	_	(147)

a. Assumes no early redemption in respect of any loan notes.

b. 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'/'F1' (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 £18m (2014 £9m) of collateral was posted by a swap counterparty within the securitisation as at 26 September 2015. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four-weekly basis.

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

The Group's credit exposure at the balance sheet date was:

	2015 £m	2014 £m
Cash and cash equivalents	163	255
Other cash deposits	120	_
Trade receivables	3	3
Other receivables	11	21
Other financial assets ^a	18	9
Derivatives	19	5

a. As disclosed in note 3.2, other financial assets relate to cash collateral provided by a swap counterparty.

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity and cash flow generation of the pub estate. By keeping debt (see also 'Funding and liquidity risk' above) and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the year, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2015 £m	2014 £m
Net debt (note 4.1)	1,870	1,958
Total equity	1,271	1,185
Total capital	3,141	3,143

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:

At issuance of the Class A3N floating rate notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. The A3N notes form part of the securitised debt (see note 4.2).

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ finance costs. A movement of 10% in the US\$ exchange rate would have £nil (2014 £nil) impact on the reported Group profit and £22m (2014 £5m) impact on the reported Group net assets.

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 £2.0bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

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

	2015 £m	2014 £m
Interest income ^a	2	2
Interest expense ^b	(2)	(2)
Profit impact	-	_
Derivative financial instruments (fair values) ^c	100	104
Total equity	100	104

- a. Represents interest income earned on cash and cash equivalents (these are defined in note 4.1).
- b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.
- $c. \ \ The impact on total equity from movements in the fair value of cash flow hedges.$

Section 4 – Capital structure and financing costs continued

4.4 Financial instruments continued

Derivative financial instruments

Cash flow hedges

Changes in cash flow hedge fair values are recognised 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 period and are expected to remain highly effective over the remaining contract lives.

During the period a loss of £86m (2014 loss of £59m) on cash flow hedges was recognised in equity. A loss of £31m (2014 loss of £48m) was recycled from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 26 September 2015, the Group held 10 (2014 10) interest rate swap contracts with a nominal value of £1,017m (2014 £1,037m), designated as a hedge of the cash flow interest rate risk of £1,017m (2014 £1,037m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows on these contracts occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8689% (2014 4.8749%). The contract maturity dates match those of the hedged item. The 10 interest rate swaps are held on the balance sheet at fair market value, which is a liability of £296m (2014 £241m).

At 26 September 2015 the Group held one (2014 one) cross currency interest rate swap contract, with a nominal value of £201m (2014 £212m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate \$337m (2014 \$355m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £19m (2014 £5m).

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a floating rate of interest at LIBOR in sterling.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually.

The fair values of the derivative financial instruments were measured at 26 September 2015 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

		Derivative financial instruments – fair value					
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m		
Cash flow hedges:							
– Interest rate swaps	_	_	(43)	(253)	(296)		
– Cross currency swap	19	_	_	_	19		
26 September 2015	19	_	(43)	(253)	(277)		
		· ·					
27 September 2014	5	_	(45)	(196)	(236)		

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

Financial assets: - Cash - Derivative instruments in designated hedge accounting relationships - Loans and receivables Financial liabilities: - Borrowings at amortised cost Book value Em 283 283 32 519 520 531 532 533	£r	m	Book value £m	Fair value £m
 Cash Derivative instruments in designated hedge accounting relationships Loans and receivables Financial liabilities: 		3	255	255
 Derivative instruments in designated hedge accounting relationships Loans and receivables Financial liabilities: 		3	255	255
Loans and receivablesFinancial liabilities:	19			233
Loans and receivablesFinancial liabilities:	1.	9	5	5
	3	2	33	33
- Borrowings at amortised cost (2.174				
Dollowings at amortised cost) (2,234	4)	(2,220)	(2,294)
 Derivative instruments in designated hedge accounting relationships (296)) (296	6)	(241)	(241)
- Other (214) (214	4)	(204)	(204)
(2,350	(2,410	0)	(2,372)	(2,446)

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 their book values approximate to fair values.

Fair value of financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

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

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

The table below sets out the valuation basis of financial instruments held at fair value by the Group:

Fair value at 26 September 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Currency swaps	_	19	_	19
Financial liabilities:				
Interest rate swaps	-	(296)	_	(296)
	_	(277)	_	(277)
	Level 1	Level 2	Level 3	Total
Fair value at 27 September 2014	£m	£m	£m	£m
Financial assets:				
Currency swaps	_	5	_	5
Financial liabilities:				
Interest rate swaps	_	(241)	_	(241)
	_	(236)	_	(236)

4.5 Pensions

Accounting policy

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 (MABPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit section of the plans is now closed to future service accrual. 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.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

The total pension liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability. The actuarial liability is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the scheme are recognised within operating costs in the income statement.

Re-measurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on scheme assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

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.

Critical accounting judgements and estimates

The determination of the actuarial defined benefit obligation of the Group's defined benefit pension schemes requires judgement around the selection of certain assumptions which include the discount rate, inflation rate, salary growth and longevity of current and future pensioners. The determination of the actuarial defined benefit asset requires judgement in determining investment returns and long-term interest rates.

The determination of defined benefit liability based on minimum funding arrangements requires management judgement in the selection of an appropriate discount rate.

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

Measurement of scheme assets and liabilities

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2013 and updated by the schemes' independent qualified actuaries to 26 September 2015. Scheme assets are stated at market value at 26 September 2015 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds.

The principal financial assumptions used at the balance sheet date have been updated to reflect changes in market conditions in the period and are as follows:

	2015	2014
Pensions increases	3.0%	3.1%
Discount rate	3.6%	3.8%
Inflation rate	3.1%	3.2%

The mortality assumptions were reviewed following the 2013 actuarial valuation as agreed on 21 May 2014. A summary of the average life expectancies assumed is as follows:

	2015		2014	
	Main plan Executive plan		Main plan	Executive plan
	years	years	years	years
Male member aged 65 (current life expectancy)	21.7	25.9	21.7	25.9
Male member aged 45 (life expectancy at 65)	24.3	27.6	24.3	27.6
Female member aged 65 (current life expectancy)	24.1	27.1	24.1	27.1
Female member aged 45 (life expectancy at 65)	26.9	29.1	26.9	29.1

Minimum funding requirements

The results of the 2013 actuarial valuation showed a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised) and on 21 May 2014 the Company formally agreed a new 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The Group has agreed to increase contributions from £40m to £45m per annum, for three years effective from 1 April 2013. From 1 April 2016 contributions then increase each year by the rate of RPI (subject to a minimum increase of 0% and a maximum increase of 5%) for the following seven years. As part of the recovery plan, the Group has also made a further payment of £40m in September 2015 on terms agreed with the Trustees. Under IFRIC 14, an additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

Sensitivity to changes in discount rate

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 actuarial deficit by approximately £39m (2014 £39m). A similar increase or decrease in the discount rate used would, in isolation, reduce or increase the total pension liability by approximately £2m (2014 £2m), with no material impact on the income statement charge.

Amounts recognised in respect of defined benefit schemes

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

	2015 52 weeks £m	2014 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(7)	(7)
Administrative costs (defined benefit plans)	(2)	(2)
Charge to operating profit	(9)	(9)
Finance costs:		
Net pensions finance charge on actuarial deficit	(6)	(4)
Additional pensions finance charge due to minimum funding	(9)	(6)
Net finance charge in respect of pensions	(15)	(10)
Total charge	(24)	(19)

Group statement of comprehensive income

	2015 52 weeks £m	2014 52 weeks £m
Return on scheme assets and effects of changes in assumptions	13	(119)
Movement in pension liability recognised due to minimum funding	(7)	(95)
Remeasurement of pension liability	6	(214)

Group balance sheet

	2015 £m	2014 £m
Fair value of scheme assets	2,010	1,865
Present value of scheme liabilities	(2,112)	(2,058)
Actuarial deficit in the schemes	(102)	(193)
Additional liability recognised due to minimum funding	(248)	(232)
Total pension liability*	(350)	(425)
Associated deferred tax asset	70	85

^{*} The total pension liability of £350m (2014£425m) is represented by a £46m current liability (2014£45m) and a £304m non-current liability (2014£380m).

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

	Scheme assets	
	2015 £m	2014 £m
Fair value of scheme assets at beginning of period	1,865	1,732
Interest income	71	76
Remeasurement gain:		
 Return on scheme assets (excluding amounts included in net finance charge) 	63	80
Employer contributions	86	49
Benefits paid	(73)	(70)
Administration costs	(2)	(2)
At end of period	2,010	1,865

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

	Defined benefit obligation	
	2015 £m	2014 £m
Present value of defined benefit obligation at beginning of period	(2,058)	(1,849)
Interest cost	(77)	(80)
Benefits paid	73	70
Remeasurement losses:		
– Effect of changes in demographic assumptions	(12)	(45)
– Effect of changes in financial assumptions	(38)	(154)
At end of period ^a	(2,112)	(2,058)

a. The defined benefit obligation comprises £25m (2014 £24m) relating to the MABETUS unfunded plan and £2,087m (2014 £2,034m) relating to the funded plans.

The major categories and fair values of scheme assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2015 £m	2014 £m
Cash and equivalents	94	11
Equity instruments	556	588
Debt instruments:		
– Bonds	1,298	1,215
– Real estate debt	58	_
– Emerging market debt	_	45
– Absolute return bond funds	197	194
– Gilt repurchase transactions	(192)	(189)
Property	_	1
Gold	3	2
Forward foreign exchange contracts	(4)	(2)
Fair value of assets	2,010	1,865

The actual investment return achieved on the scheme assets over the period was 7.4% (2014 9.5%), which represented a gain of £131m (2014 £154m).

Virtually all equity instruments, bonds, emerging market debt and gold have quoted prices in active markets. Absolute return bonds funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments and property is classified as a Level 3 instrument.

In the 52 weeks ended 26 September 2015 the Group paid £5m (2014 £6m) in respect of the defined contribution arrangements, with an additional £2m (2014 £1m) outstanding as at the period end.

At 26 September 2015 the MABPP owed £1m (2014 £2m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

Section 4 – Capital structure and financing costs continued

4.6 Share-based payments

Accounting policy

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 marketbased vesting conditions, on the date of grant. The expense is recognised on a straight-line basis 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 either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

Schemes in operation

The net charge recognised for share-based payments in the period was £2m (2014 £2m).

The Group had four equity-settled share schemes (2014 five) in operation during the period; the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan and Short Term Deferred Incentive Plan.

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 52 to 69.

The following tables set out weighted average information about how the fair value of each option grant was calculated:

	2015	2015 2014		2015		
	Performance Restricted Share Plan	Sharesave Plan	Performance Restricted Share Plan	Sharesave Plan		
Valuation model	Monte Carlo and Binomial	Black-Scholes	Monte Carlo and Binomial	Black-Scholes		
Weighted average share price	366.3p	471.0p	417.5p	398.0p		
Exercise price ^a	<u> </u>	362.0p	<u>.</u>	328.0p		
Expected dividend yield ^b	_	_	_	_		
Risk-free interest rate	0.90%	1.14%	1.87%	1.70%		
Volatility ^c	27.0%	26.8%	3.4%	28.3%		
Expected life (years) ^d	3.0	3.92	3.0	4.12		

- a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
- The expected dividend yield for the Sharesave Plan has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 31. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.
- c. 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. d. 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 and the Share Incentive Plan are 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 to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes.

Movements in the awards and options outstanding under these schemes for the periods ended 26 September 2015 and 27 September 2014 are as follows:

	Performance Restricted Share Plan Number of shares	Sharesave Plan Number of shares	Share Incentive Plan Number of shares	Short Term Deferred Incentive Plan Number of shares
0.141.41.41.20.6.41.41.420.12	thousands	thousands	thousands	thousands
Outstanding at 28 September 2013 Granted	1,759 1,336	3,438 1.348	1,572 261	7 80
Exercised	(94)	(440)	(208)	
Forfeited	(252)	(322) ^a	(72)	(7)
	(2)2)	(53)	(/ ∠)	_
Expired Outstanding at 27 Contambou 2014	2 740	3.971	1 552	80
Outstanding at 27 September 2014 Granted	2,749 1,549	3,971 1.247	1,553 219	80
Exercised	(105)	(731)	(245)	(40)
Forfeited	(621)	(529) ^a	(71)	(40)
Expired	(14)	(33)	(/1)	
Outstanding at 26 September 2015	3,558	3.925	1,456	40
Outstanding at 20 September 2015	סכנ, כ	2,323	1,470	40
Options exercisable				
At 26 September 2015	_	_	847	
At 27 September 2014	105	_	781	_
7(t27 September 2014	100		701	
Fair value of options granted during the period (pence) ^b				
At 26 September 2015	311.4	161.3	471.0	_
At 27 September 2014	226.3	134.1	398.0	409.3
7(27 September 2011	220.5	12 1.1	220.0	102.5
Weighted average remaining contract life (years)				
At 26 September 2015	3.2	2.6	_c	0.2
At 27 September 2014	3.5	2.6	_c	0.7
The Displacement Later		2.0		0.7
Range of prices (pence) of options outstanding				
At 26 September 2015	_d	182.0 – 362.0	_	_
At 27 September 2014	_d	182.0 – 328.0	_	_

- The number of forfeited shares in the period includes 273,291 (2014 168,442) cancellations.
- b. Fair value is based on the date of grant.
 c. SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group.
- d. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.

The weighted average share price during the period was 406.1p (2014 422.5p).

4.7 Equity

Accounting policies

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.

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.

Called up share capital

	2015		2014	
	Number of shares	£m	Number of shares	£m
Allotted, called up and fully paid Ordinary shares of 813/ ₂₄ p each				
At start of period Share capital issued	411,637,885 882,741	35 -	411,011,098 626,787	35 -
At end of period	412,520,626	35	411,637,885	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.

No dividends have been declared or paid in the period (2014 £nil). The Directors propose a final dividend of 5.0p per share, amounting to £21m, for approval at the Annual General Meeting. The dividend will be paid on 9 February 2016 to shareholders on the register at close of business on 4 December 2015.

Details of options granted under the Group's share schemes are contained in note 4.6.

Section 4 – Capital structure and financing costs continued

4.7 Equity continued

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £2m has been recognised on shares issued in the period (2014 £1m).

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 by the employee share trusts.

During the period, the employee share trusts acquired nil (2014 500,000) and subscribed for 151,461 (2014 189,859) shares at a cost of £nil (2014 £2m) and released 733,646 (2014 698,269) shares to employees on the exercise of options and other share awards for a total consideration of £1m (2014 £1m). The 1,523,502 shares held by the trusts at 26 September 2015 had a market value of £5m (27 September 2014 2,105,687 shares held had a market value of £8m).

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's 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 26 September 2015, the trustees, Equiniti Share Plan Trustees Limited, held 1,479,636 (2014 1,571,331) shares in the Company. Of these shares, 453,527 (2014 441,070) shares are unconditionally available to employees, 393,491 (2014 340,256) shares have been conditionally awarded to employees, 608,554 (2014 771,894) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 24,064 (2014 18,111) 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 and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 26 September 2015, the trustees, Sanne Fiduciary Services Limited, were holding 43,866 (2014 534,356) shares in the Company.

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.

Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £304m at 26 September 2015 (2014 £234m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

Notes to the financial statements

Section 5 – Other notes

5.1 Related party transactions

Key management personnel

Employees of the Mitchells & Butlers Group 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.

Compensation of key management personnel of the Group:

	2015	2014
	£m	£m
Short-term employee benefits	2	2
Termination payments*	1	_
	3	2

^{*} Termination payments relate to accrued pay in lieu of notice for Alistair Darby. Further details are disclosed in the Report on Directors' remuneration on page 64.

Movements in share options held by the employees of Mitchells & Butlers plc are summarised in note 5 of the Company accounts.

5.2 Subsidiaries

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 companies:

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	United Kingdom	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	United Kingdom	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	United Kingdom	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany	Germany	Leisure retailing
Midco 1 Limited	England and Wales	United Kingdom	Property leasing company
Mitchells & Butlers (Property) Limited	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Limited	England and Wales	United Kingdom	Service company
Mitchells & Butlers Germany GmbH ^a	Germany	Germany	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Standard Commercial Property Developments Limited	England and Wales	United Kingdom	Property development
Other subsidiaries			
Mitchells & Butlers Holdings (No.2) Limited ^a	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Leisure Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	United Kingdom	Holding company
Old Kentucky Restaurants Limited	England and Wales	United Kingdom	Trademark ownership
Bede Retail Investments Limited	England and Wales	United Kingdom	Non-trading
_astbrew Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers (IP) Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Acquisition Company	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Retail Property Limited	England and Wales	United Kingdom	Non-trading
Mitchells and Butlers Healthcare Trustee Limited	England and Wales	United Kingdom	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	United Kingdom	Non-trading
Standard Commercial Property Securities Limited	England and Wales	United Kingdom	Property development
Temple Circus Developments Limited	England and Wales	United Kingdom	Property development
ALEX Gaststätten Immobiliengesellschaft mbH	Germany	Germany	Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany	Germany	Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany	Germany	Property management
ALEX Alsterpavillon Management GmbH	Germany	Germany	Management company
ALEX Gaststätten Management GmbH	Germany	Germany	Management company
PLAN-BAR Gastronomie Einrichtungs GmbH	Germany	Germany	Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (London) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurants Limited	England and Wales	United Kingdom	Dormant
Crownhill Estates (Derriford) Limited	England and Wales	United Kingdom	Dormant
East London Pubs & Restaurants Limited	England and Wales	United Kingdom	Dormant
Mitchells & Butlers Lease Company Limited	England and Wales	United Kingdom	Dormant
Intertain (Dining) Limited	England and Wales	United Kingdom	Dormant

Notes to the financial statements

Section 5 – Other notes continued

5.3 Five year review

	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m	2012 52 weeks £m	2011 52 weeks £m
Revenue	2,101	1,970	1,895	1,889	1,796
Operating profit before exceptional items	328	313	310	304	294
Operating exceptional items	(58)	(49)	(29)	(72)	(19)
Operating profit	270	264	281	232	275
Finance costs	(130)	(132)	(130)	(140)	(141)
Finance revenue	1	1	2	2	3
Net pensions finance charge	(15)	(10)	(11)	(11)	(5)
Profit before taxation	126	123	142	83	132
Tax expense	(23)	(30)	(14)	(13)	(7)
Profit for the period	103	93	128	70	125
Earnings per share					
Basic	25.0p	22.6p	31.2p	17.1p	30.7p
Diluted	24.9p	22.5p	31.0p	17.0p	30.5p
Adjusted (Basic) ^a	35.7р	32.6p	32.2p	30.5p	28.0p

 $a. \ \ Adjusted \ earnings \ per share \ is \ stated \ after \ removing \ the \ impact \ of \ exceptional items \ and \ other \ adjustments \ as \ explained \ in \ note \ 2.2.$

Mitchells & Butlers plc Company financial statements

Company balance sheet 26 September 2015

Registered Number: 04551498

	Notes	2015 £m	2014 £m
Fixed assets			
Investments	6	1,716	1,717
		1,716	1,717
Current assets			
Debtors: amounts falling due within one year	7	529	532
Cash and cash equivalents		8	7
		537	539
Creditors: amounts falling due within one year	8	(1,329)	(1,336)
Net current liabilities		(792)	(797)
Net assets before net pension liabilities		924	920
Net pension liabilities	4	(280)	(340)
Net assets		644	580
Capital and reserves			
Called up share capital	10	35	35
Share premium account	10	26	24
Capital redemption reserve	10	3	3
Profit and loss account	10	580	518
Shareholders' funds		644	580

Signed on behalf of the Board on 23 November 2015

Phil Urban **Tim Jones**

The accounting policies and the notes on pages 110 to 115 form an integral part of these financial statements.

Notes to the Mitchells & Butlers plc Company financial statements

1. Basis of preparation

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.

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

No statement of recognised gains and losses is provided as the only additional loss is the actuarial movement which is disclosed in note 10.

The Company's accounting policies have been applied on a consistent basis with no changes to policies during the period.

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.

Cash flow statement

The Company has taken advantage of the exemption under FRS 1 Cash Flow Statements and not produced a cash flow statement.

Related party transactions

The Company has taken advantage of the exemption under FRS 8 Related Party Disclosures and not disclosed details of transactions with wholly owned subsidiaries.

2. Profit and loss account

The Company recorded a profit after tax of £68m (2014 £94m), less dividends of £nil (2014 £nil).

Auditors' remuneration for audit services to the Company was £22,000 (2014 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. Employees and Directors

	2015	2014
	52 weeks	52 weeks
Average number of employees, including part-time employees	2	2

Employees of Mitchells & Butlers plc consist of Executive Directors.

4. Pensions

Accounting policy

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

The Company accounts for pensions under FRS 17 Retirement Benefits. Prior to the introduction of IAS 19 (revised), disclosure requirements under FRS 17 were equivalent to those under IAS 19 Employee Benefits. However, following Group adoption of IAS 19 (revised) on 29 September 2013, differences in the accounting and disclosure requirements between FRS 17 and IAS 19 (revised) now arise.

The actuarial 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 independent actuaries.

Following guidance from the Financial Reporting Review Panel, the total liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability.

There is no current service cost as all defined benefit schemes are closed to future accrual. The interest cost and the expected return on assets are shown as a net amount within finance income or expense. 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.

Pension liability

The net pension liability of £280m (2014 £340m) is shown net of a deferred tax asset of £70m (2014 £85m).

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 4.5 to the consolidated financial statements on pages 101 to 103.

Measurement of scheme assets and liabilities

Minimum funding requirements

The results of the $\overline{2013}$ actuarial valuation showed a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by FRS 17 and on 21 May 2014 the Company formally agreed a new 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The Group has agreed to increase contributions from £40m to £45m per annum, for three years effective from 1 April 2013. From 1 April 2016 contributions then increase each year by the rate of RPI (capped between 0% to 5%) for the following seven years. As part of the recovery plan, the Group has also made a further payment of £40m in September 2015 on terms agreed with the Trustees. An additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2013 and updated by the schemes' independent qualified actuaries to 26 September 2015. Scheme assets are stated at market value at 26 September 2015 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. FRS 17 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds.

The principal financial assumptions used at the balance sheet date have been updated to reflect changes in market conditions in the period and mortality assumptions are in line with those used in the 2013 actuarial valuation as agreed on 21 May 2014. These assumptions and a sensitivity analysis are disclosed in note 4.5 to the Group consolidated financial statements on page 102.

The long-term rates of return on assets at 26 September 2015 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2016 financial year. The 2014 rates shown are used in calculating the 2015 expected return.

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 4.2% (2014 4.7%). The actual investment return achieved on the scheme assets over the period was 7.4% (2014 9.5%), which represented a gain of £131m (2014 £154m).

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

	2015 £m	2014 £m
Fair value of assets	2,010	1,865
Present value of scheme liabilities	(2,112)	(2,058)
Actuarial deficit in the schemes	(102)	(193)
Additional liability recognised due to minimum funding requirements	(248)	(232)
Total pension liability	(350)	(425)
Associated deferred tax asset	70	85
Net pension liability	(280)	(340)

The following amounts relating to the defined benefit and defined contribution arrangements have been recognised in the Company's financial statements in the period:

Profit and loss account

	2015 52 weeks £m	2014 52 weeks £m
Interest received:		
Expected return on pension scheme assets	78	81
Interest on pension scheme liabilities	(77)	(80)
Net interest in respect of pensions	1	1

Profit and loss account reserves

	2015 52 weeks £m	2014 52 weeks £m
Actual return less expected return on pension scheme assets Changes in assumptions underlying the present value of the scheme liabilities	54 (50)	73 (199)
Actuarial gain/(loss) recognised	4	(126)
Movement in pension liability recognised due to minimum funding requirements	(16)	(101)
Total movement in pension liability recognised reserves	(12)	(227)

Notes to the Mitchells & Butlers plc Company financial statements

continued

4. Pensions continued

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

	Scheme assets	
	2015 £m	2014 £m
Fair value of scheme assets at beginning of period	1,865	1,732
Expected return on plan assets	78	81
Employer contributions	86	49
Benefits paid	(73)	(70)
Actuarial gain recognised	54	73
At end of period	2,010	1,865

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

	Scheme	liabilities
	2015 £m	2014 £m
Present value of defined benefit obligation at beginning of period	(2,058)	(1,849)
Interest cost on benefit obligations	(77)	(80)
Benefits paid	73	70
Actuarial loss recognised	(50)	(199)
At end of period ^a	(2,112)	(2,058)

 $a. \ \ The defined benefit obligation comprises £25m (2014 £24m) \ relating to the MABETUS unfunded plan and £2,087m (2014 £2,034m) \ relating to the funded plans.$

5. Share-based payments

Accounting policy

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 either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

Schemes in operation

The charge recognised for share-based payments in the period is \pm nil (2014 \pm nil) which comprises share option schemes and share awards to the employees of the Company.

Details of employee share schemes and options granted over the shares of the Company are included under note 4.6 of the consolidated financial statements.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 26 September 2015 and 27 September 2014, are as follows:

	Performance Restricted Share Plan Number	Sharesave Plan Number	Share Incentive Plan Number	Short Term Deferred Incentive Plan Number
	of shares thousands	of shares thousands	of shares thousands	of shares thousands
Outstanding at 28 September 2013	477	5	2	6
Granted Exercised	407 -	8 –	2	80 (6)
Outstanding at 27 September 2014 Granted	884 456	13	4	80
Exercised	_	_	_	(40)
Forfeited Expired	(284)	_	_	_
Outstanding at 26 September 2015	1,056	15	5	40
Fair value of options granted during the period (pence) ^a				
At 26 September 2015	252.4	156.0	471.0	_
At 27 September 2014	226.3	123.0	398.0	409.3
Weighted average remaining contract life (years)				
At 26 September 2015	3.0	2.0	_b	0.2
At 27 September 2014	3.6	2.8	_b	0.7

a. Fair value is calculated on the date of grant.

The weighted average share price during the period was 406.1p (2014 422.5p).

Summarised information about options over the Company's shares outstanding at 26 September 2015 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 105.

6. Fixed asset investments

Accounting policy

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.

	Shares in subsidiary undertakings £m
Cost	
At 28 September 2013	1,749
Exchange differences	(2)
At 27 September 2014	1,747
Exchange differences	(1)
At 26 September 2015	1,746
Provision	
At 28 September 2013	30
Provided during period	
At 27 September 2014	30
Provided during period	-
At 26 September 2015	30
Net book value	
At 26 September 2015	1,716
At 27 September 2014	1,717
At 28 September 2013	1,719

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings (see note 5.2 of the consolidated financial statements).

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

Notes to the Mitchells & Butlers plc Company financial statements

continued

7. Debtors

	2015 £m	2014 £m
Amounts owed by subsidiary undertakings	529	532

All amounts fall due within one year.

8. Creditors: amounts falling due within one year

	2015	2014
	£m	£m
Bank overdraft	28	28
Amounts owed to subsidiary undertakings	1,299	1,306
Other creditors	2	2
	1,329	1,336

9. Taxation

Accounting policies

Current taxation

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

Deferred taxation

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

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.

Deferred tax asset

Movements in the deferred tax asset can be analysed as follows:

		£m
At 28 September 2013		50
Charged to profit and loss account		(10)
Credited to profit and loss account reserves		45
At 27 September 2014		85
Charged to profit and loss account		(17)
Credited to profit and loss account reserves		2
At 26 September 2015		70
Analysed as tax timing differences related to:		
	2015 £m	2014 £m
Pensions	70	85

The pension liability is shown net of the associated deferred tax asset (see note 4). Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

10. Capital and reserves

Called up share capital

Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

Capital and reserves

Movements in reserves can be analysed as follows:

	Capital				Capital	Profit and loss account reserve	
	Share capital £m	Share premium £m	redemption reserve £m	Own shares £m	Other £m	Total £m	
At 28 September 2013	35	23	3	(4)	609	605	
Share capital issued	_	1	_	_	_	_	
Purchase of own shares	_	_	_	(2)	_	(2)	
Release of own shares	_	_	_	2	(1)	1	
Credit in respect of employee share schemes	_	_	_	_	2	2	
Actuarial loss on pension schemes	_	_	_	_	(126)	(126)	
Movement in pension liability due to minimum funding requirements	_	_	_	_	(101)	(101)	
Deferred tax relating to actuarial loss	_	_	_	_	25	25	
Deferred tax relating to movement in pension liability due to							
minimum funding requirements	_	_	_	_	20	20	
Profit after taxation	_	_	_	_	94	94	
At 27 September 2014	35	24	3	(4)	522	518	
Share capital issued	_	2	_	_	_	_	
Release of own shares	_	_	_	3	(1)	2	
Credit in respect of employee share schemes	_	_	_	_	2	2	
Actuarial gain on pension schemes	_	_	_	_	4	4	
Movement in pension liability due to minimum funding requirements	_	_	_	_	(16)	(16)	
Deferred tax relating to actuarial loss	_	_	_	_	(1)	(1)	
Deferred tax relating to movement in pension liability due to							
minimum funding requirements	_	_	_	_	3	3	
Profit after taxation	_	_	_	_	68	68	
At 26 September 2015	35	26	3	(1)	581	580	

The profit and loss account reserve is wholly distributable after the deduction for own shares.

Annual Report and Accounts 2015

Shareholder information

Contacts

Registered office

27 Fleet Street Birmingham B3 1JP Telephone 0121 498 4000 Fax 0121 233 2246

Registrar

Equiniti

Aspect House Spencer Road Lancing West Sussex BN99 6DA

From the UK: Telephone 0371 384 2065* Fax 0371 384 2100

From non-UK jurisdictions: Telephone +44 121 415 7088* Fax +44 1903 833 113

For those with hearing loss, a textphone is available on 0371 384 2255* for UK callers with compatible equipment.

http://www.mbplc.com/investors/contacts/

 Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England & Wales.

Key dates

These dates are indicative only and may be subject to change. For the current status visit the financial calendar on our website at www.mbplc.com/investors

Ex-dividend date (final dividend)	3 December 2015
Final dividend record date	4 December 2015
Annual General Meeting	28 January 2016
Final dividend payment date	9 February 2016
Announcement of interim results	May 2016
Interim dividend payment date	July 2016
Pre-close trading update	September 2016
2016 final results announcement	November 2016

Glossary

AWT (Average Weekly Take)

The average sales per site per week, calculated as total sales excluding VAT divided by the average number of sites trading during the period divided by the number of weeks in the period.

Bond amortisation

The repayment of debt, following a fixed schedule of payments, made in regular instalments, over a period of time.

Cash flow from operations

Net cash flow resulting directly from regular operations.

EBIT

Earnings before interest and tax.

FRITDA

Earnings before interest, tax, depreciation and amortisation.

EBITDAR

Earnings before interest, tax, depreciation, amortisation and rent.

EPOS

Electronic point of sale.

FSA

Food Standards Agency.

IAS

International Accounting Standards.

Internal Rent

A notional rent charge made against freehold properties to align internal performance measurement across freehold and leasehold sites.

Like-for-like sales growth

Like-for-like sales growth includes the sales performance against the comparable period in the prior year of all UK managed pubs, bars and restaurants that were trading in the two periods being compared.

Net promoter score

Percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 out of 10 ('brand detractors') to the statement "I am likely to recommend this pub to a friend and/or relative".

Operating profit

Earnings before interest and tax.

Red Book valuation

A valuation conducted in compliance with the valuation standards of the Royal Institution of Chartered Surveyors.

Securitisation

A means of raising finance secured on a particular group of assets and the associated cash flows derived from those assets.

Mitchells & Butlers online

Mitchells & Butlers' comprehensive website gives you fast, direct access to a wide range of Company information.

- Downloadable Annual Report and Accounts
- Latest investor news and press releases
- Brand news and offers
- Responsibility policies and review
- Find a local restaurant or pub
- Sign up for latest news

To find out more go to www.mbplc.com



Our brands

All of our popular brands have their own websites, helping our customers to find the information they need straight away. Latest food and drink menus, news and offers, email newsletters, online bookings and details of new openings are all available.

Alex

www.alexgastro.de

All Bar One

www.allbarone.co.uk @YourAllBarOne

Browns

www.browns-restaurants.co.uk @BrownsBrasserie

Castle

www.mbplc.com/findapub

Crown Carveries

www.crowncarveries.co.uk @CrownCarveries

Ember Inns

www.emberinns.co.uk @EmberInns

Harvester

www.harvester.co.uk @HarvesterUK

Innkeeper's Lodge

www.innkeeperslodge.co.uk @InnkeepersLodge

Miller & Carter

www.millerandcarter.co.uk @MillerandCarter

Nicholson's

www.nicholsonspubs.co.uk @Nicholsonspubs

O'Neill's

www.oneills.co.uk @oneills_pubs

Oak Tree Pubs

www.mbplc.com/findapub

Premium Country Pubs

www.mbplc.com/findapub

Sizzling Pubs

www.sizzlingpubs.co.uk @SizzlingPubs

Toby Carvery

www.tobycarvery.co.uk @tobycarvery

Vintage Inns

www.vintageinn.co.uk @Vintage_Inns



Design and production: Gather **Printed by:** CPI Colour

The paper used in this Report is derived from sustainable sources

CarbonNeutral®printing company



Mitchells & Butlers plc 27 Fleet Street Birmingham B3 1JP Tel: +44 (0)121 498 4000 Fax: +44 (0)121 233 2246 www.mbplc.com