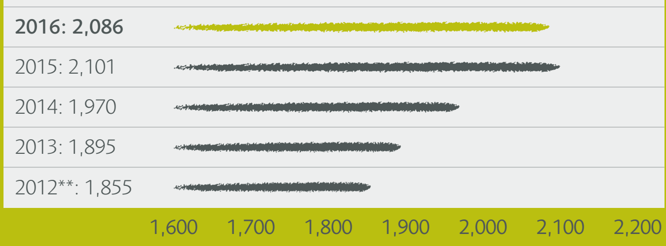
Mitchells & Butlers

Annual Report & Accounts 2016

Financial highlights

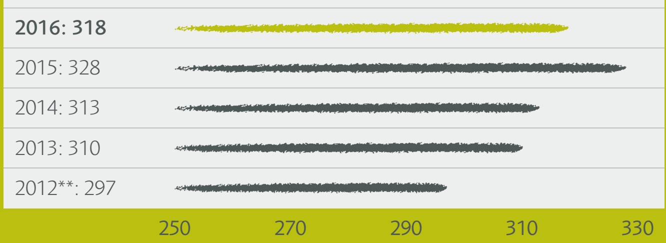
Revenue (£m)

£2,086m



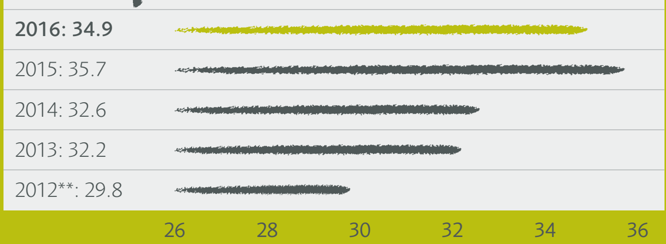
Adjusted operating profit* (£m)

£318m



Adjusted earnings per share* (pence)

34.9p



* Adjusted figures refer to results before separately disclosed items as detailed in note 2.2 of the accounts.

** FY 2012 was a 53 week year, figures are therefore restated on a 52 week basis.

Strategic report

Governance

Financial statements

Shareholder information

Welcome

Mitchells & Butlers is a leading operator of managed restaurants and pubs. Our strong portfolio of brands and formats includes **Harvester, Toby Carvery, All Bar One, Miller & Carter, Premium Country Pubs, Sizzling Pubs, Crown Carveries, Stonehouse, Vintage Inns, Browns, Castle, Nicholson's, O'Neill's** and **Ember Inns**. In addition we operate Innkeeper's Lodge hotels in the UK and Alex restaurants and bars in Germany.

We are focused on the delivery of our three strategic priorities:

To build a more balanced business

To instil a more commercial culture

To drive an innovation agenda

Progress against our priorities

I am delighted that we returned to like-for-like sales growth in the last quarter of the year and that this momentum has continued into the early weeks of 2017.

In my statement last year I welcomed Phil Urban as our new Chief Executive, at a time when we faced a highly competitive market with a great deal of new restaurants having opened. Phil and the team have worked at pace to identify a clear set of priorities, and have already made good progress against these.

We had a challenging first half of the year, but saw sales recover in the second half. Overall, our adjusted earnings per share fell by 2.2%, impacted by a lower level of sales, cost headwinds including the introduction of the National Living Wage, and the cost of accelerating our capital investment programme to deliver our long-term strategy.

I am delighted that we returned to like-for-like sales growth in the last quarter of the year and that this momentum has continued into the early weeks of 2017. We have also consistently outperformed the market in this period, giving us a real opportunity to win back market share.

We resumed the payment of a dividend last year. This year the Directors are recommending the payment of a final dividend of 5p per share, making a total of 7.5p for the year.

There has been a number of Board changes during the year. In November, Piedmont Inc. nominated Josh Levy as one of its two representative Non-Executive Directors, replacing Douglas McMahon. In February we appointed Dave Coplin to the Board as an independent Non-Executive Director; he is currently Chief Envisioning Officer at Microsoft Limited and an established thought leader on the role of technology in personal and professional lives. His deep understanding of the technology environment will be invaluable to us in ensuring our continued progress in digital marketing and the development of our brands online. In September, we appointed Keith Browne to the Board as a Non-Executive Director. He joins us as a representative of Elpida Group Limited, a significant shareholder of the Company, and has considerable corporate finance and real estate experience which will be of great assistance to the Board. Overall, I remain pleased with the composition of the Board and the way we interact to lead the business to greater success.

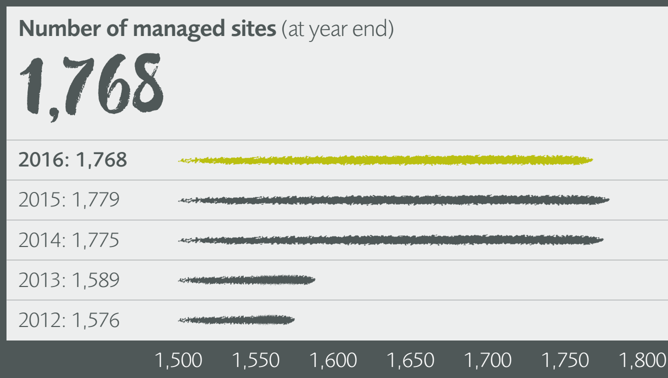
The good progress we are making would not be possible without the dedication of our 44,000 employees. On behalf of the Board I would like to thank them all for the passion and hard work they deliver to our business.

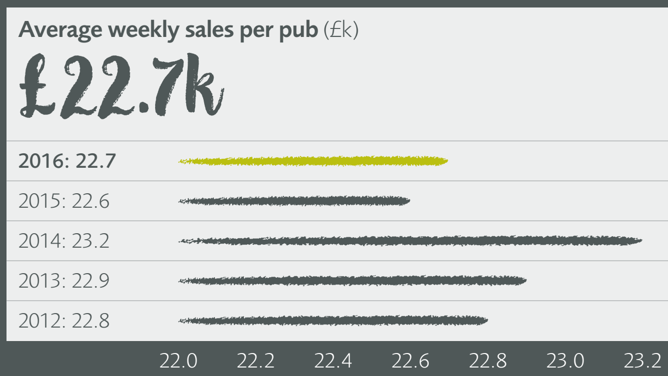
We continue to operate in a challenging market with an increasing number of external cost headwinds. There is therefore no room for complacency, we must continue to perform at the top of our game to make every guest visit worthwhile, and thereby grow market share and shareholder value.

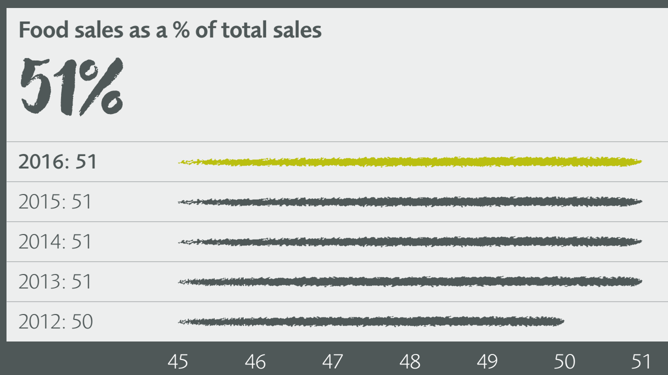
I feel confident that we will continue to make progress in the year ahead.

Bob Ivell
Chairman

Operational highlights







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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 the perfect steak close to home, or a pint of real ale and some hearty food in a buzzing town centre pub, we've a **business to suit every occasion.**

Alex – 43 sites

If you're out in a German city centre, these classic bars are the perfect places to stop for a beer and a bite to eat.

All Bar One – 51 sites

From cocktails to a well-chosen bottle of wine or an excellent meal, you'll find something to suit you in our stylish city bars.

Ember Inns – 148 sites

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

Harvester – 229 sites

A welcoming place for families to spend time together, have fun and share the pleasure of good, honest food.

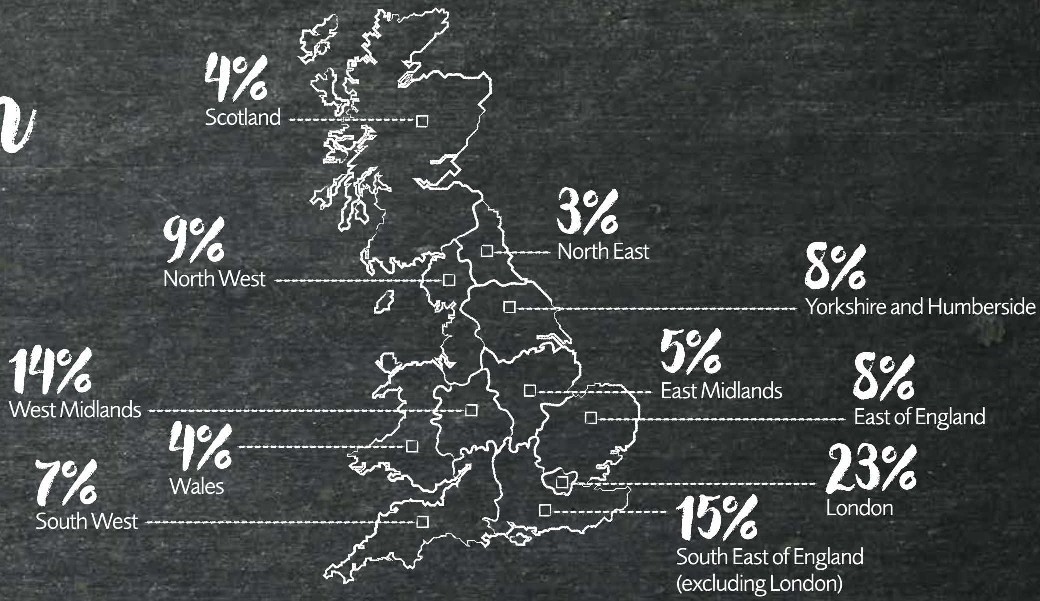
Premium Country – 128 sites

Our traditional pubs have been stylishly refurbished to make them the perfect place to find a cosy corner and take time out.

Stonehouse – 36 sites

Alongside our traditional carvery, we serve up handmade pizza with fresh dough; plus burgers and pub classics at a great price.

Revenue by region (% of sales)



Browns – 25 sites

Since the first Browns opened in 1973, it's been providing delicious food and drink and superb service in beautiful surroundings.

Castle – 114 sites

If you like a place with real personality, pull up a chair in one of our urban pubs serving the best draught beer and great food.

Crown Carveries – 76 sites

We serve a traditional roast dinner with a great choice of tender, slow-cooked joints every day of the week.

High Street – 127 sites

Our High Street pubs are the perfect place for decent food and quality beer – and at prices that put other pubs to shame.

Miller & Carter – 52 sites

We put everything into pursuing the perfect steak at Miller & Carter so only the finest cuts make it to your plate.

Nicholson's – 80 sites

You'll feel right at home at these traditional city and town centre pubs that have been loved since our first pub opened in 1873.

Suburban – 291 sites

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

Toby Carvery – 173 sites

We lay on a feast of tender, slow-cooked meats, eight lots of veg including crispy, ruffled roasties and all the trimmings.

Vintage Inns – 195 sites

We manage some of the best country pubs in the UK, all offering modern pub food and outstanding drinks.

Constantly striving for profitable sales

Our brands and concepts are well established in their respective markets and I have been very impressed by the team of people we have here. As a sector we clearly have some challenges, but these strong fundamentals remain and will help us meet them.

What were your initial impressions when you joined Mitchells & Butlers?
Having worked in the industry for several years, I had long been aware of Mitchells & Butlers as a competitor. When I joined, my view was that we had the best brands operated from the best locations and by a very strong team of people.

I believe these impressions were correct. We do have an outstanding set of assets, which are largely freehold backed. Our brands and concepts are well established in their respective markets, and I have been very impressed by the team of people we have here. As a sector we clearly have some challenges, but those strong fundamentals remain and will help us meet them.

What are the main challenges you face?
The restaurant and casual dining market has seen a great deal of new supply in recent years. This new supply clearly provides competition, and can be problematic at a local level in the short term, although in time it should help to grow the overall market. This growth has slowed more recently with net openings now broadly flat, reflecting increased uncertainty over the impact of the National Living Wage, providing us with the best chance we have had in recent years to steal back market share.

We are also facing a period of increased cost headwinds – most notably labour costs, with the National Minimum Wage and National Living Wage. The impact of Brexit is potentially a further challenge both to ourselves and the wider economy, particularly without clarity on exit terms: the effect on consumer behaviour remains to be seen, but a weaker sterling will impact our cost base. Longer term we have around 5,000 non-UK EU nationals working in our business and we would certainly not want to lose access to this talent.

Within Mitchells & Butlers, there is a challenge alongside each of the strengths I mentioned previously. We have a fantastic estate, but it had reached a point where it was underinvested, especially in a marketplace which had seen a large number of new entrants. Prior to my joining, the business had had to invest significantly in its IT infrastructure and back-of-house standards. I am fortunate to have come in as those projects are largely complete. However, it leaves us with a need to invest more in the guest-facing areas of our businesses. As for brands, we simply need to be more innovative. This includes utilising digital technology, but also looking at potential new concepts and sales channels such as delivery. Finally, our people are fantastic, but I felt I met a culture which needed refocusing: to get all of our teams fully engaged on commerciality. I want to bring a sharper commercial acumen to what we do – constantly striving for sales and, more importantly, profitable sales.

In order to meet these challenges, and utilise our strengths, we identified three clear priorities: to build a more balanced business, to instil a more commercial culture and to drive an innovation agenda.

Can you discuss your work on strategy?

As a new CEO, I was very conscious of a variety of suggestions as to how best to add and extract value from Mitchells & Butlers. So we decided as a Board to take a fresh look at some of these strategic options, and whether they were appropriate to best deliver long-term shareholder value. We came to the conclusion that we are best placed to generate value through a strategy of accelerated organic growth: increasing the pace of our investment cycle, converting our brands towards more premium concepts, and innovating to keep up with the market. This ties in with the three strategic priorities above.

What changes were made last year?

We undertook an organisational restructure earlier in the year, which now sees the businesses managed by four Divisional Directors, each of whom sit on the Executive Committee. This gives a greater operational presence at a senior level within the organisation, and also gives the benefit of grouping businesses with similar customer types and occasions under one operational umbrella. This has already enabled us to speed up decision-making, and benefit from some good sharing of ideas. Our work on culture has also extended beyond this – we are carrying out specific sales training for all of our house managers, we introduced a new incentive for house managers in the second half of last year rewarding an improved trajectory of sales, and have focused heavily on improving our turnaround time in resolving guest complaints.

We have also worked hard on the estate, and have a full estate plan for where we aim to have all of our sites by 2020. We are underway on this, having increased Miller & Carter from 36 to 52 sites in the last year, and 36 sites trading under our new Stonehouse concept. We have also significantly increased the number of remodels we undertake – investing in the estate to improve the general level of amenity. We are aiming to be on a cycle of investing in each of our businesses about every six years, from a cycle of more than 11 years recently. This clearly requires additional capex, which we expect to increase from around £160m in 2015 to around £200m per year going forward. Crucially, a greater proportion of it is guest-facing, and hence return-generating, as we move forward.

Finally, we have completed a great deal of work in technology and digital. This covers a range of activity, from consolidating our 10 million contact details from multiple sources, to building a number of apps across our brands, to significantly growing our numbers of online bookings from our own websites and through affiliates, to providing our teams with the capability to read and respond to TripAdvisor posts.

This is by no means an exhaustive explanation of our activity, and there is further detail in the Business Review, but it gives an idea of some of the work we've been doing.

When do you expect to see the benefits coming through?

We have started to see some of the early benefits already, with an improvement in our sales trajectory since the first half of last year. As well as our own numbers getting better, we have seen a notable improvement compared to the wider market, to a point where we have outperformed the market in recent months, which is encouraging. From here though, I don't see this as a standalone piece of work that will one day be completed and we can suddenly say is done – we are changing our ongoing ways of working, and that must become business as usual.

Are you happy with the Group's performance?

I'm not sure I'm ever completely satisfied with performance! Sales in the first half were challenging. However, in the second half they improved, with like-for-like sales growing by 0.2%. It is encouraging to see that, outside of the period affected by the Rugby World Cup last year, this sales growth has been maintained in the first few weeks of 2017. Our profits have been impacted by some second half cost pressures which have seen margins fall. When I reflect on it however, I can see that we've got a lot done. We're working very hard to make some big changes, particularly regarding the pace at which we operate. The team have responded really well and I'm encouraged that performance has started to improve. That said, I fully recognise that we cannot take our foot off the gas as we still have a lot of work to do.

What developments can we expect?

Our focus remains on our three priorities, so we expect more progress on balancing the estate, instilling a commercial culture and driving an innovation agenda.

We're continuing with our programme of rebalancing the estate, which will see us continue to grow Miller & Carter and Stonehouse, principally through the conversion of existing sites but with a small number of acquisitions. In total, we expect to complete around 300 conversions and remodels each year, nearly double the amount we did in FY 2015, which is a vital step forward to us improving the guest-facing areas of the estate.

Commercially, our teams will continue to be very focused on engaging with our guests, by resolving complaints quickly and efficiently, but also using social media channels as a key sales driver, with particularly increased use of TripAdvisor at house level as well as loyalty mechanic trials in our Miller & Carter and Browns brands. We will also be looking at making more of additional sales channels, for example through extension of our successful early trial into delivery.

Our work on innovation will continue in various forms. Clearly, digital marketing is very important to us and our guests, so we will continue to develop our online presence through booking capability, apps and loyalty programmes, and so adding to the progress we made last year. We are also looking at new concepts, and will open the first prototype of our new Chicken Society concept in Finchley in December. This is an offer that takes advantage of our scale purchasing advantage and, if successful, will be rolled out to other sites but, as importantly, helps us deliver a wider innovation process.

Phil Urban
Chief Executive

Highly competitive market

In the year to June 2015 there were over 1,700 net restaurant openings – broadly the equivalent of our own business in terms of outlet numbers. Since the summer of 2015 the rate of openings has slowed considerably, most likely as a result of the cost headwinds the sector faces.

Market supply

In recent years the eating-out market has seen a significant increase in the supply of restaurants. In the year to June 2015 there were over 1,700 net restaurant openings – broadly the equivalent of our own business in terms of outlet numbers. This provided us with many new local competitors and impacted our mid-market brands in particular, as a number of these openings were close to our own high-quality trading locations.

However, since the summer of 2015 the rate of openings has slowed considerably, most likely as a result of the cost headwinds the sector faces, notably the announcement of the introduction of the National Living Wage in July 2015. Net restaurant openings are now broadly flat year-on-year, which gives us an opportunity to win back market share. It therefore remains imperative that we focus on our priorities to maintain our competitive position through our range of brands and formats, our high-quality locations, and the delivery of our offers to guests.

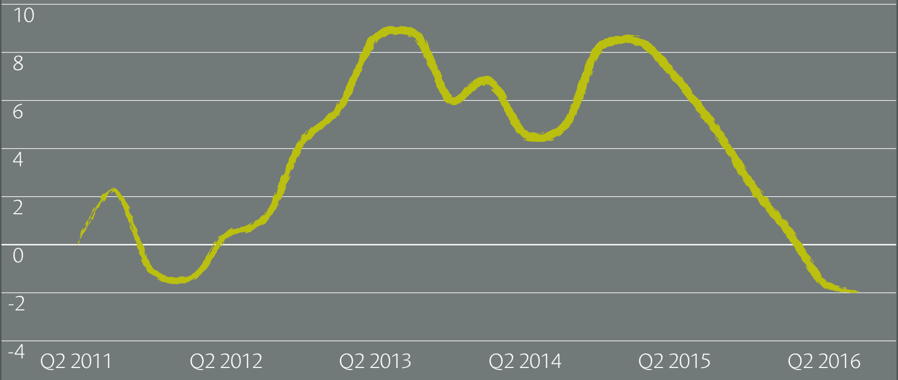
EU referendum

We believe it is too early to predict with any certainty what the impact of Brexit on the economy might be, particularly without clarity on exit terms. However, there are broadly three areas in which Brexit may affect us in the medium to long term: changes in consumer confidence and behaviour; changes to employment and immigration laws; and changes to input costs. The first two of the three are largely unknown at present, and therefore our approach is to stay close to developments whilst continuing to support all our 44,000 employees.

Input costs will be impacted by the value of sterling, which has fallen significantly since the EU referendum. We have a small number of sites trading in Germany, but otherwise our international trade is defined by our supply chain. The net effect of a weaker sterling is therefore profit dilutive due to the food and drink which is purchased in foreign currency, although this is partially mitigated in the next financial year by existing contracts.

UK restaurants year-on-year openings growth (%)

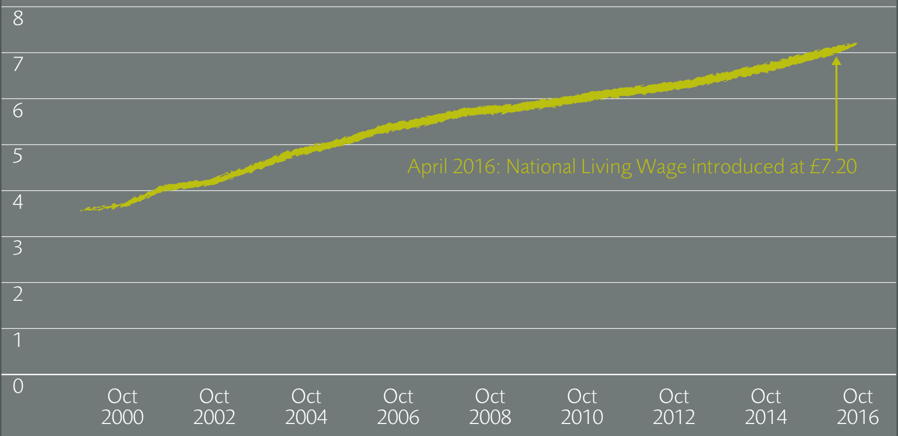
Since summer 2015 the rate of openings has slowed considerably, to a point where it is now in year-on-year decline.



Source: CGA Outlet Index

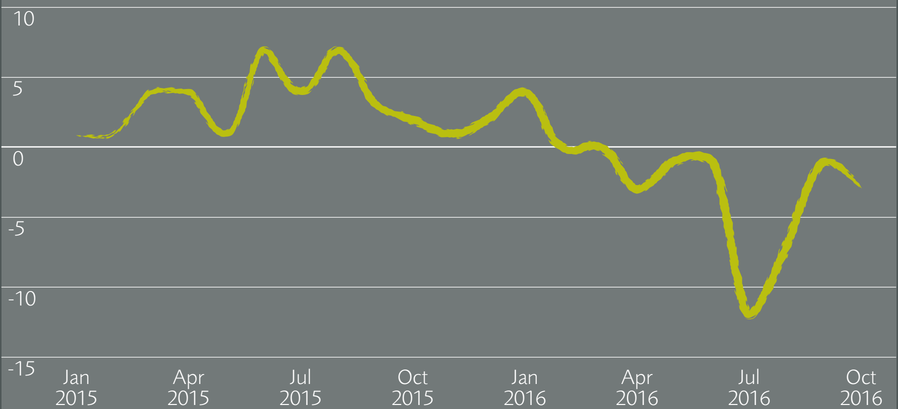
UK adult National Minimum Wage (£s/hour)

The National Living Wage was introduced at £7.20 per hour in April 2016.



UK consumer confidence index

Consumer confidence has softened during 2016.



Source: Trading Economics

> "It therefore remains imperative that we focus on our priorities to maintain our competitive position through our range of brands and formats, our high-quality locations, and the delivery of our offers to guests."

Creating sustainable value

In the long term, we aim to maximise the opportunity from these guest experiences through the use of our largely freehold-backed estate, the teams of people working within the Company, and the practices which we adopt.

Value proposition

We create value for our various stakeholders through the delivery of eating and drinking experiences to our guests, who are at the centre of what we do. We serve more than 130 million meals and 400 million drinks every year, enabling us to engage with and delight these guests on a daily basis.

We deliver these experiences through our strong collection of brands and formats, which enable us to meet a range of guest needs and occasions, and to tailor our offerings according to location, time of year, demographic, type of trading outlet and consumer tastes.

In the long term, we aim to maximise the opportunity from these guest experiences through the use of our largely freehold-backed estate, the teams of people working within the Company, and the practices which we adopt.

Estate

In total we trade from more than 1,800 pubs and bars, of which over 80% are owned under a freehold or long leasehold. The estate is predominantly UK-based, and is nationwide although most heavily concentrated in London and the South East, the West Midlands and the North West.

This array of high-quality locations, matched with our diverse brand portfolio, enables us to match the right concept to the right trading asset, as well as offering a strong pipeline for future conversions as growth concepts are identified. Our property has a net book value of £4.4bn as at the end of FY 2016, offering a stable and long-term opportunity for value creation.

People

We have more than 44,000 employees across our pubs and restaurants and in our Retail Support Centre, who are critical to delivering outstanding experiences to our guests. Our people include those with strong business and sector experience, as well as new and enthusiastic young talent who we look to develop through our apprenticeship programme. In a hospitality business, our people are a key point of differentiation to our competitors, and we therefore adopt a structured approach to recruitment, and towards driving high levels of engagement with our existing teams.

Practices

Practices refer to the way in which we operate to best generate value throughout the business. This encompasses our use of scale for purchasing and operational efficiency, sharing of ideas between similar brands and concepts within the portfolio, adherence to the highest operational standards, and an increasing use of technology to enhance guest experiences.

Brands

Guests

Estate

In total we trade from more than 1,800 pubs and bars, of which over 80% are owned under a freehold or long leasehold.

Building a balanced business
See pages 14 and 15

People

We have more than 44,000 employees across our pubs and restaurants and in our Retail Support Centre, who are critical to delivering outstanding experiences to our guests

Instilling a commercial culture
See page 16

Practices

Practices refer to the way in which we operate to best generate value throughout the business.

Driving an innovation agenda
See page 17

Creating Value

for Shareholders

Total shareholder return
See page 79

for Suppliers

Corporate social responsibility
See pages 28 to 31

for the Environment

Corporate social responsibility
See pages 28 to 31

for Employees

Corporate social responsibility
See pages 28 to 31

Our strategic priorities

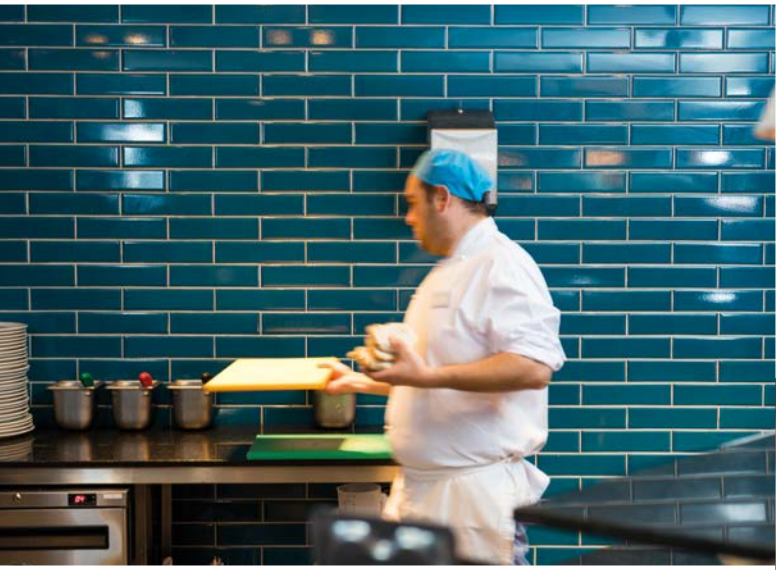
Our strategy aims to deliver long-term sustainable shareholder value through organic growth. Our priority is to maximise the return generated from our existing assets, through our three strategic priorities.

Strategy	Rationale
1 **Build a more balanced business**	• To generate maximum value from our estate of largely freehold-backed properties • To ensure we are exposed to the right market segments by having the correct trading brand or concept in each outlet, based on location, site characteristics and local demographics • To maintain the amenity level of the estate such that we operate safely and remain competitive to guests, alongside meeting cash flow commitments
2 **Instil a more commercial culture**	• To ensure we focus on the delivery of profitable sales • To engage our teams in delivering outstanding guest experiences to drive sales • To act quickly and decisively to remain competitive in our fast-changing marketplace
3 **Drive an innovation agenda**	• To ensure that our brands and formats remain fresh and relevant within their market segments • To leverage the increasing role technology can play in improving efficiency and guest experience • To execute a digital strategy to engage with consumers across a variety of platforms • To facilitate new product and concept development

Progress in 2016	Priorities in 2017	Key risks	Link to KPIs
• Completed a full estate review, with a plan for each individual site by year until 2020 • Invested in growth concepts: Miller & Carter increased from 36 to 52 sites through conversion and acquisition, and we converted 36 sites to our new Stonehouse format • Accelerated the capital investment in the existing estate, with 252 conversions and remodels completed (FY 2015 167) • Acquired eight sites and disposed of 16	• Continue to increase Miller and Carter to around 100 sites and Stonehouse to around 80 sites in calendar year 2017 • Accelerate further our investment in remodels and conversions, increasing to around 300 sites per year • Make further selective acquisitions where we feel they add value to the estate, and disposals where we feel we have extracted maximum value	**1a, 2a**	**2, 3, 4, 5**
• Redesigned the organisational structure, creating four operational divisions, each of which is represented by a Divisional Director on the Executive Committee • Identified a series of key workstreams, empowered to speed up decision-making and deliver change at pace • Initiated a range of tactical activity to change behaviour, including a focus on faster resolution of complaints, short-term sales incentives for managers and the establishment of a dedicated London sales team	• Expand sales channels, including the extension of home delivery with partners • Continue to focus on guest engagement, including extending our interaction through TripAdvisor • Continue to focus on mitigating cost headwinds through efficiency, the removal of non-guest impacting costs and pricing and promotional initiatives	**1a, 1b, 2a, 2d, 2g**	**1, 2, 3, 5**
• Developed our new Stonehouse brand – an evolution of our Pizza & Carvery concept, which we have successfully established in the last two years • Enhanced the capability of our existing technology, for instance through the integration of our own booking platforms with third parties, to significantly grow the number of online bookings received • Developed and begun executing a range of digital marketing activity, from the development of brand apps and optimising websites, to working with affiliate partners to attract new guests • Developed our new Chicken Society concept, for which the first site opens in December 2016	• Trial new design and product offerings within our existing brands • Develop and open at least one new brand/concept to take advantage of changing consumer preferences, adding further options to portfolio of brands for estate planning • Further build on existing technology platform through improved wifi and partnerships with third-party technology providers to enhance guest experience • Extend digital strategy towards guest loyalty initiatives	**1a, 2b, 2c**	**2, 3, 5**

Risks and uncertainties
See pages 20 to 24

Key performance indicators
See pages 18 and 19



Building a balanced business

With 1,800 largely freehold sites in fantastic locations we have a great platform for success.

Our challenge is to ensure that we marry the best brand, offer and consumer profile to the location to grow both sales and profit. To this end, we have completed a comprehensive review of the estate in the year which has determined our investment plans going forward.

For example, our highly successful Miller & Carter brand, with 52 restaurants, has a pipeline of sites that will take it to around 100 sites by the end of 2017.

We are also focused on upgrading the look and feel of our businesses to bring them up to scratch in a highly competitive market, so in Harvester we completed 32 conversions to our Feel Good Dining format as part of a total of 252 conversions and remodels across the Company in the year.

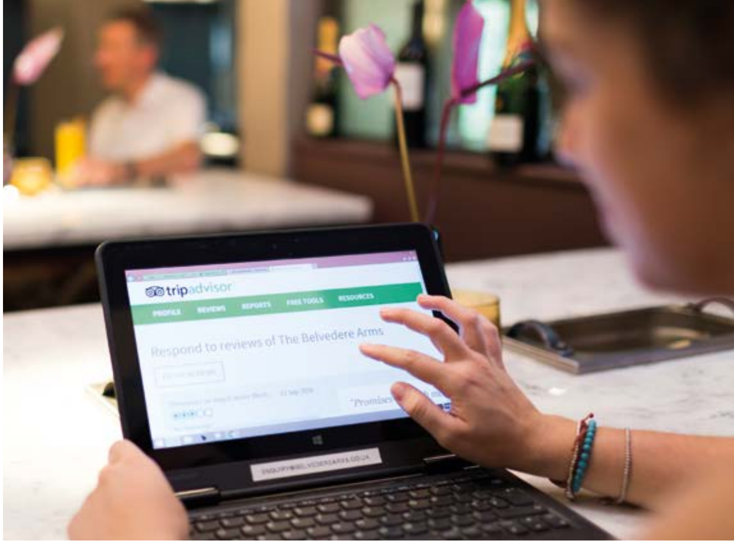
Instilling a commercial culture

We are reigniting the sales and customer service focus of our teams, with General Managers and Area Managers attending sales workshops in the year. We have also built a sales team in London focused on driving sales in key locations across the capital, which we intend to roll out to other major cities in 2017.

Closely aligned to this sales focus is the renewed importance we have placed on guest care. One output of this is the speed at which complaints are dealt with. We are therefore pleased that we now resolve these in around 48 hours, far faster than in the past. Our focus is now on using the rich feedback we get from our guests to avoid issues in the first place by anticipating guest needs and addressing them in our offer.

We are increasing the pace of activity, and fostering more of an innovative environment within the business. In the year therefore, we have improved our online booking engine and integrated with Bookatable; enabled our General Managers to view and deal with feedback on TripAdvisor; and successfully trialled Deliveroo in All Bar One and Browns.

We are also developing our new concept innovation process, which sees the first prototype of our Chicken Society concept open soon and offers a potential rollout opportunity as well as a solution for under-traded areas in existing businesses.



Driving an innovation agenda

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Measuring performance

We measure our performance against our strategy through five key performance indicators.

KPI	Definition
1 Staff turnover 86%	The number of leavers in our retail businesses, expressed as a percentage of average retail employees. This measure excludes site management. Following a change to our HR and payroll system, and the integration of Orchid's system with our own, the measure for staff turnover has been rebased, including for prior years where data is available.
2 Net promoter score 51	The net promoter score for a pub is defined as the percentage of responses where we score 9 or 10 out of 10, less the percentage of responses where we score 0 to 6 out of 10 to the statement "I am likely to recommend this pub to a friend and/or relative".
3 Year-on-year same outlet like-for-like sales -0.8%	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, unless marketed for disposal.
4 Incremental return on expansionary capital 20%	Expansionary capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital.
5 EPS growth -2.2%	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.

Performance in 2016	Link to strategy	Five year trend
Retail staff turnover increased by 4ppts to 86%. A number of factors have contributed to this increase, including a more robust approach taken to performance management within our retail businesses and a highly competitive labour market, in particular for kitchen roles and outlets that have seen high levels of local competition.	2	**Staff turnover** (%) **2016: 86** 2015: 82 2014: 83 2013: 83 70 75 80 85 90
Net promoter score was 51 in the final quarter of FY 2016 following our rebasing of the measure. As highlighted last year, we have optimised our guest survey platform, which has resulted in this rebasing. The new guest platform enables us to improve both the user experience for our guests, and the insight we can gather to react quickly to improve guest experiences. The previous basis of measurement was in place for the first 32 weeks of FY 2016, at which point the year to date score was 67 (FY 2015 65).	1, 2, 3	**Net promoter score** **2016: 51** 2015: 65 2014: 63 2013: 59 2012: 55 35 40 45 50 55 60 65
Like-for-like sales fell by 0.8% in FY 2016. Like-for-like sales fell by 1.6% in the first half of the year, but recovered to grow by 0.2% in the second half, the result of the accelerated investment programme and improvements in the uninvested estate.	1, 2, 3	**Same outlet like-for-like sales growth** (%) **2016: -0.8** 2015: 0.8 2014: 0.6 2013: 0.4 2012: 2.1 -1.0 -0.5 0 0.5 1.0 1.5 2.0 2.5
Improved by 2ppts to 20%, the increase being driven by an improvement in conversion returns and the returns from growth remodels. Acquisition returns are broadly in line with last year.	1	**Incremental return on expansionary capital** (%) **2016: 20** 2015: 18 2014: 16 2013: 17 2012: 17 12 13 14 15 16 17 18 19 20
Earnings per share fell by 2.2%, impacted by the lower level of sales, cost inflation and the increased in-year cost of accelerating our capital investment programme.	1, 2, 3	**EPS growth** (%) **2016: -2.2** 2015: 9.5 2014: 1.2 -2.5 0 2.5 5.0 7.5 10.0

Our strategy
See pages 12 to 17

Keeping risk in control

This section highlights the top 10 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 considered to be most relevant at the current time.

Overview

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 six occasions in FY 2016 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 page 52.

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 function. 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, shareholder value, our responsibilities to our staff and customers, our reputation and our relationship with key stakeholders.

Our three lines of defence

1st

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

2nd

- Financial authority limits
- Risk Management processes
- Audit Committee
- Risk Committee
- Health and Safety Team
- Technology Specialists
- Legal Support

3rd

- Group Assurance
- Operational Practice Team

Risk category and description	Controls/mitigating activities	Movement
1 Market risks		
A Declining sales performance *This risk falls into three main categories:* **Sales:** There is a risk that declining sales may adversely affect our market share and profitability, reducing headroom against securitisation tests. **Consumer and market insight:** If M&B fails to manage and develop its existing (and new) brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in revenues and profits. **Pricing and market changes:** If price changes are not intelligently applied due to a lack of appreciation of market sensitivities and elasticities, this may result in decreased revenue and profit.	• Right team and structure in place. Brand alignment ensures the right research gets done and is acted on. • Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place. • Our Eat Drink Share panel provides robust, quick and cost effective research. This is our own panel of 27,000 M&B guests whom we can use for research purposes for quick and cost-effective insights. • Primary research in partnership with brand/category teams. • Working with suppliers to tap into their research. • Each brand has its own pricing strategy. • Price promotions are in line with the agreed strategy. • Sales training for Management. • Consumer/insight led innovation process and development for new brands. • Reduce customer complaints by improving the local management of social media responses (ie TripAdvisor). • Increased digital marketing activity. • 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.	↗ **Risk increasing**

Risk category and description	Controls/mitigating activities	Movement
1 Market risks continued		
B Cost of goods price increases *This risk falls into three main categories:* **Food:** The price of goods increases due to increases in demand and uncertainty of supply, leading to decreased profits. **Drinks:** The price of drinks goods increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits. **Goods not for resale:** Increases in the price of goods not 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.	Overall, price increases are mitigated as 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. Key mitigating activities for food and drink are detailed below: **Food:** • A Food Procurement Strategy is in place. • Full reviews have been carried out on key categories to ensure optimum value is achieved in each category. • A full range review was completed in early 2015 ensuring the correct number of products/suppliers. • Regular reporting of current and projected inflation. • Good relationships with key suppliers. **Drinks:** • Each drinks category has a clearly defined strategic sourcing plan to ensure company scale is leveraged, supply base is rationalised and consumer needs are met. • Good relationships with key suppliers. • Supplier collaboration programmes are in place. • Plans in development to mitigate Sugar Tax. Risk is increasing mainly due to the devaluation of sterling following Brexit, changes in Government (raising risk of punitive duty changes) and the introduction of the Sugar Tax in 2018.	**Risk increasing**

Risk category and description	Controls/mitigating activities	Movement
2 Operational risks		
A People planning and development Mitchells & Butlers has a strong guest focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. There is a risk that without the right people our customer service levels would be affected.	The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning.	**Risk decreasing**
B Business continuity and crisis management Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.	The Company has in place crisis and continuity plans that are tested and refreshed regularly. The Company's third-party back-up facility, for retail support centre employees, has been successfully tested to ensure critical business systems are able to function in the event of a disaster. In addition, during FY 2016, departmental Business Continuity Plans have been revised, updated and reviewed by the Risk Committee.	**No movement**

Risk category and description	Controls/mitigating activities	Movement
2 Operational risks continued		
C Information security and disaster recovery There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data.	In FY 2016 a detailed review of information security, disaster recovery and IT resilience was performed in order to highlight any gaps and address any challenges that had been presented in exploring the viability of a disaster recovery test for our business critical applications. During the year a number of improvements have been made, including: • Establishment of an Information Security Steering Group. • Group Assurance review of Information Security controls. • Review and implementation of appropriate cyber security governance policy and procedures. • Ongoing security awareness initiatives have been and continue to be undertaken.	↔ **No movement**
D Wage cost inflation There is a risk that increased costs associated with the introduction of the National Living Wage may adversely impact upon overall operational costs.	A detailed review of the risks associated with successfully implementing the National Living Wage has been completed. This review has been undertaken at a strategic level and seeks to ensure that 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 in FY 2017. We are currently trialing a new Time and Attendance system to improve the management controls and reporting of staff hours.	↗ **Risk increasing**
E 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.	↔ **No movement**
F 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 deficit at the end of FY 2016, following the revised contributions, is £337m (FY 2015 £350m).	↔ **No movement**

Risk category and description	Controls/mitigating activities	Movement
2 Operational risks continued		
G 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.	**No movement**
H Food supply chain safety Malicious or accidental contamination in the supply chain could lead to food goods for resale being unfit for human consumption or being dangerous to consume. This could lead to restrictions in supply which in turn causes an increase in cost of goods and reduced sales due to consumer fears and physical harm to customers/employees.	• M&B has a Safety Assurance team and uses a number of technical partners including food technologists, food safety experts, a microbiologist, allergy consultants, trading standards specialists, nutritionists, etc. • M&B uses a robust system of detailed product specifications. • All food products are risk rated using standard industry definitions and assessment of the way the products are used in M&B kitchens. Suppliers are then risk rated according to their products. • Each food supplier is audited at least once per annum in respect of safety and additionally in response to a serious food safety complaint or incident.	**No movement**

Long-term viability statement

In accordance with the Corporate Governance Code, the Directors have undertaken an assessment, including sensitivity analyses, of the prospects of the Group, for a period of three years to September 2019. This assessment has been made taking account of the current financial position, compliance with covenants, Company strategy, budget planning process and the key risks and uncertainties, as detailed within the Annual Report.

The Group's strategy provides a long-term direction and is reviewed on at least an annual basis, including three year forecasts, detailing the expected financial impact.

The Directors have therefore concluded, based upon the extent of the financial planning assessment, sensitivity analysis and current financial position that there is a reasonable expectation that the Group has adequate resources and will be able to continue in operation and meet all their liabilities as they fall due over the three year period of assessment.

Building sales momentum

Over the last year we have continued to focus on our three strategic priorities:

To build a more balanced business

To instil a more commercial culture

To drive an innovation agenda

We have started to see early positive results emerging from our work on these priorities. Sales were challenging in the first half of the year, falling by 1.6% on a like-for-like basis. However, in the second half our like-for-like sales grew by 0.2%, improving the full year outturn to 0.8% down. This was in part driven by an increased level of capital investment in our estate but also an improvement in the performance of our sites that have not seen recent investment.

This build in sales momentum has continued from the second half to recent trading after the year end as we have moved from lagging the market, to outperforming consistently[1].

Our adjusted earnings per share fell by 2.2% to 34.9p, reflecting the lower total sales but also a weaker margin in the second half of the year. The National Living Wage was introduced from April 2016, and saw a 7.5% increase in the minimum rate of pay for those aged 25 and over, in addition to the National Minimum Wage which increased by 3.1% in October 2015. The acceleration of investment in our businesses also affected profits, as we incurred a greater number of closure weeks and pre-opening costs. This is an unavoidable short-term impact of improving amenity levels in our businesses but is the right thing to do to enhance our long-term prospects.

Our priorities

Building a more balanced business

Our estate comprises more than 1,800 sites, of which more than 80% are freehold or long-leasehold. This provides the opportunity for long-term value generation; our priority is therefore to ensure the estate is set up to extract this value.

Over the coming years, we are committed to improving the quality of the estate: by exposing it to more premium market spaces and by improving the overall level of amenity. The premium market is where we would expect to see the strongest growth, and these spaces offer a form of long-term mitigation towards cost inflation. We are therefore converting several of our businesses towards more premium concepts (both existing and new) as well as making selective site acquisitions and disposals where appropriate.

To this end, within the year we have carried out a full estate review, which gives us a plan for each of our sites. We have recently identified around 75 sites for sale in order to generate greater value for shareholders than if retained as managed businesses. Going forward, we will continue to look at acquisitions and disposals as part of our normal course of business.

1. Coffer Peach Business Tracker

It remains our intention to grow Miller & Carter to 100 sites by 2018 and we are well on track to achieve this. This is a proven and successful steakhouse format that generates strong like-for-like sales, and also delivers good returns when we open in new locations. We have grown the brand in the last year from 36 to 52 sites. A small number of these have been acquisitions, with the majority being existing site conversions delivering EBITDA returns of more than 40%. Our portfolio gives us a strong pipeline of future conversion opportunities to continue successfully growing the brand.

We have also evolved our Pizza & Carvery businesses and established the new Stonehouse brand in summer 2016. This is a reinvention of our Crown Carveries brand, involving modernisation of the amenity whilst enhancing the menu to broaden its appeal. At the end of FY 2016 we had 36 sites under the new brand. This remains a strong value format, but with a more premium offer than prior to conversion. As with Miller & Carter, these are largely existing site conversions, and are generating returns of around 25%. We will aim to grow Stonehouse to around 80 sites by 2018.

Our estate's amenity level has improved through our remodel programme, which encompasses all our brands and allows us to develop the guest proposition whilst maintaining and enhancing the estate through capital investment. An example of this is Harvester, which has faced increased competition in recent years. We have evolved our 'Feel Good Dining' remodel solution, which sees us spend around £400,000 of capex per site, and is delivering a return of around 25% in the 32 sites in which it has so far been implemented. We have a pipeline of Harvester sites to continue the rollout of this format.

In total, we completed 252 remodels and conversions in FY 2016 (FY 2015 167), moving us towards a six-year investment cycle for all our sites. We will continue to increase this to around 300 remodels and conversions in FY 2017, which we expect to be broadly the rate in future years.

Instilling a more commercial culture

Across our retail teams and our support centre we employ more than 44,000 people. Engagement of this team is critical to achieving growth in profitable sales. Given the challenges we face as a business and an industry, it is critical we execute well and at pace.

To facilitate this, we underwent an organisational restructure this year, creating four operating divisions, each containing similar brands and customer types. The four Divisional Directors leading these each now sit on the Executive Committee. Organisationally, we have also identified a number of clear workstreams aligned to our three priorities. These changes enable us to make much quicker decisions, with our workstream teams empowered to be decisive, work their way through barriers, and deliver effectively.

We have focused our work in this area across a wide range of activities. There has been a significant drive towards resolving our guests' complaints more quickly. A year ago it was taking an unacceptable average of 11 days to resolve a guest complaint. We quickly reduced this to our target of just over two days, and successfully maintained this level. This will continue to be an important area for our teams.

Much of our work in this area has been around creating a more sales-focused culture, and we will continue to have an ongoing number of initiatives to achieve this. Examples from the last year include dedicated sales training provided to all the operational teams, an incentive scheme in the second half of the year which awarded cash bonuses for improving sales trends, and the establishment of a London-based sales team to fill secondary space and increase levels of corporate bookings.

Driving an innovation agenda

Innovation and technology are critical areas for us as a business, in terms of efficiency, attracting and interacting with guests and remaining competitive in our markets.

A key area of focus is to build on our existing technology, given the systems investment we have made in recent years. We have developed our online bookings system to increase the availability of short-term bookings and to integrate with third-party booking providers to extend our reach. Our bookings have grown, such that more than half our restaurant bookings are now made online. We are looking at various other ways to improve efficiency and the guest experience, including enhanced wifi provision in our sites and the trialling of alternative payment technology.

We have also developed our digital strategy across key guest interaction areas: acquisition, experience, customer relationship management, loyalty, and social media. The relentless nature of digital development is such that we must continually enhance our skills in this area. In the last year we developed five new brand apps, which have collectively had more than 400,000 downloads, and achieve a significantly higher booking conversion rate than through traditional email communication. We are looking to build on this through the addition of loyalty incentives into forthcoming apps for Browns and Miller & Carter. We have increased our social media presence, consolidated 10m guests' details on our central database, our gift card sales have increased by more than 40% and we have carried out several successful campaigns with affiliates.

Food delivery is becoming increasingly important to the industry, and we have carried out an initial successful trial with Deliveroo across 25 All Bar One and Browns sites. Given the early success, we are working to roll this out further across our brands, in different locations and with different third-party providers. We believe that this model can apply to around a quarter of the estate, and that it provides a good opportunity to generate incremental sales.

We have increased our use of TripAdvisor as a guest interaction tool by providing all our house managers with accounts and encouraging its usage. We will look to develop this further in the year ahead, but have already seen the number of reviews significantly increase, as well as our average rating rise by more than 8%. Early results from our increased usage of TripAdvisor suggest that better scores correlate with higher like-for-like sales, increased bookings and a reduction in the average number of complaints.

Finally, we have stated that we will look to carry out new concept and product development, to maintain the appeal of our existing brands and innovate in new markets. As noted previously, we have launched the new Stonehouse brand, a successful innovation to evolve and transform the Crown Carveries brand. We are also on the point of launching a casual dining rotisserie-style concept aimed at the millennials market under the brand of 'Chicken Society'. This provides us with an opportunity to test a new concept which may be later rolled out to further sites. We expect to take the learnings from this and to develop a pipeline of further new concepts this financial year.

Current trading and outlook

In the first eight weeks of the current year like-for-like sales have increased by 0.5%, continuing the momentum that we started to build in the second half of last year.

Although we are working hard to take mitigating action where possible, we expect to see downward pressure on margins in this financial year, as our sector incurs the additional cost headwinds including the first full year of the National Living Wage, indications of two potential increases in the National Minimum Wage, the impact of exchange rate movements on foreign currency denominated purchases, and the recent business rates review.

Despite these challenges, we remain encouraged by the progress we have seen so far, in particular the strengthening of our performance against the market. We will continue focusing on our three priorities, and believe that by doing so we can continue to generate long-term shareholder value.

Phil Urban
Chief Executive

Brands people trust

Our guests trust us to serve good food that represents good value for money, which is safely prepared and cooked.

2,000

Calves reared by 20 farmers under our direct contract agreements

25m

Free range eggs purchased last year

Each year, we welcome millions of guests into our restaurants, bars and pubs, serving them around 130 million meals, making us one of the largest on-trade caterers in the UK. Our priority is to source food products of the right quality at the right price, where the quantity that we need can be guaranteed.

Food sourcing and Good Food

As a responsible company, we regard the welfare of livestock as a matter of utmost importance. Within our Sourcing Policy we have defined our standards relating to animal welfare, which are applicable to all suppliers of beef, pork, lamb, poultry, liquid milk, shell-on eggs and finfish, across all our brands. These standards will apply to the supply of additional protein and dairy products as the Sourcing Policy develops.

As part of our Sourcing Policy we require all suppliers of meat and poultry products to procure material produced from livestock reared in accordance with the Five Freedoms, as developed by the Farm Animal Welfare Council, regardless of country of origin. For more detail on this policy visit www.mbplc.com/responsibility/goodfood/overarchingpolicy/

As a minimum, all meat and poultry purchased by us is from animals reared to meet the legal standards required on animal welfare, as operated in the source country.

Where appropriate and commercially viable, we work with accredited bodies, such as Red Tractor Assurance and Bord Bia, to procure meat and poultry products that meet their exacting higher welfare standards. Our global suppliers are required to comply with recognised EU and global animal welfare standards and are audited accordingly.

Over the last year we have celebrated a number of key achievements:

- We continue to strengthen our relationships with UK farmers and producers, working directly with growers, where possible, to deliver fresh seasonal products to our kitchens. For example, all our fresh potatoes in Toby and Crown Carveries are British.
- Through our Cattle Scheme we work with 20 farmers, rearing around 2,000 calves under our direct contract agreements. Since Spring 2015 the scheme has supplied Miller & Carter with beef steaks every week, all traceable from farm to fork. As part of this programme we work closely with Blade Farming, selecting all our young calves from their specialised rearing units. In 2015 Blade Farming received a Good Calf Commendation from Compassion in World Farming, recognising their strict adherence to higher welfare calf rearing standards.
- 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.

- We have an annual spend in a calendar year of over £27m 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. This includes British chicken in Harvester and British turkey in Toby Carvery.
- We have engaged with ShareAction, a registered charity that promotes responsible investment, to work together on common environmental, social and governance (ESG) issues, that may be taken into account by shareholders when undertaking risk analysis and making financial decisions.
- In June 2016 we were awarded with the Compassion in World Farming Good Egg Award for our commitment to using shell on free range eggs across all the business by 2017, resulting in the purchase of more than 25 million free range eggs a year.

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 and Oak Tree Pubs and we are continuing to roll this out onto other brand websites as they are refreshed.

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 significantly in technical processes and systems to incorporate the requirements of Regulation (EU) No. 1169/2011 on the provision of food information to consumers. 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 EU legislation, which came into effect in December 2014, concerning the availability of information about 14 common food allergens.

Salt

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.

Sugar

We are actively engaging with Public Health England and our trade association, the British Hospitality Association, to determine the best way to meet the objectives of the UK Government's Childhood Obesity Strategy within our sector.

Signposting of healthier options

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

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 both taste and quality.

Several of our brands have increased their range of healthier options, and supported these with nutrition and health information, 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 contain 500 calories or fewer; and All Bar One's range of calorie controlled options, with the energy published on the menu copy, whilst 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 remain committed to delivering our pledges relating to artificial transfats 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 continue to 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 were implemented across all brands from Spring 2016.

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The standards incorporate best practice and recommendations from leading health charities such as The Soil Association and have been developed in consultation with 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

We place great importance on the Food Hygiene Ratings Scores of our pubs, bars and restaurants and 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.

We are aware of the Food Standards Agency's 'Regulating our Future' initiative and we are actively participating with the initiative including:

- Sharing food safety inspection data with the Food Standards Agency
- Participating in a pilot scheme with Bristol City Council
- Attending and contributing to 'Regulating our Future' seminars

The Company's Head of Safety has been appointed to the Expert Advisory Panel (Industry) for the Food Standards Agency as part of its 'Regulating our Future' project. He will assist the agency as it develops a future model for Food Safety Enforcement in England, Wales and Northern Ireland.

The Company's Head of Safety is also head of the British Hospitality Association (BHA) Food Group and earlier this year was instrumental in the publication by the BHA of the Industry Guide to Good Hygiene Practice.

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 and the Association of Licensed and Multiple Retailers.

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

Working with us

As one of the largest managed restaurant companies in the UK with over 100 years' experience, we have a huge range of career opportunities on offer. Through our people strategy we strive to attract, develop and retain the best talent. Everything we do as a business is built on the enthusiasm and professionalism of our people.

Listening to our people

Every year we carry out our employee engagement survey, 'Your Say', to understand better what is important to our employees. Encouragingly, in FY 2016 our engagement scores improved for all groups of employees. People told us they could see their colleagues living the PRIDE (Passion, Respect, Innovation, Drive and Engagement) values following a focus on values and behaviours and that they understand how these can help underpin business performance. Our colleagues' responses clearly indicated that they loved being part of a team and that there were opportunities to develop if they wanted to.

Diversity

We are committed to providing equal opportunities for all of our employees. Our employee Diversity Policy ensures that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

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.

The following table sets out our diversity balance as between men and women at the end of FY 2016.

	Men	Women
Directors	10	1
Other senior managers	26	10
All employees	22,070	23,083

Attracting the best talent

Last year we created 224 new jobs by opening new retail sites across the UK.

Nurturing and developing our people

In 2016, we continued to evolve our youth attraction strategy which aims to increase the quantity of 16yrs+ employees joining the Mitchells & Butlers business. By partnering with Believe in Young People to source young people for our work experience opportunities, and through working with HeadStart to support local communities through social integration and youth employability, we are steadily increasing the visibility of Mitchells & Butlers as an employer of potential to a new young audience. To satisfy the developmental and qualification programmes required by this population, in addition to our Hospitality Management Apprenticeship launched in 2015, three new apprenticeship routes have been established, providing greater range and breadth of opportunity for all of those who have the ambition of a long standing and successful career within the sector. Of particular note is the creation and implementation of an enhanced Professional Cookery Apprenticeship, providing learners with high levels of culinary tutoring and support, enabling our business to have a greater confidence in our future frontline food capability.

Over 400 young people have joined our business on apprenticeships this year and over 1,000 existing employees have enrolled onto one of the apprenticeship opportunities open to them. Although this represents significant progress, we aim to increase the number of new apprenticeship places created and occupied to 1,500 in 2017. At Mitchells & Butlers, a 16 year old school leaver can join us on an intermediate apprenticeship and progress through a range of qualifications culminating in a BA(hons) degree. A total of five General Managers graduated with a Foundation Degree in FY 2016. Although it is understood that this route is not appropriate for everyone, we are confident that we offer a true alternative to a traditional academic route and that we have the building blocks in place to help produce our businesses' leaders of the future.

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 FY 2016.

Many of our employees continue to enjoy the 'Dine with Us' programme, where they can access their employee discount digitally when they eat in one of our businesses. The discount increased to 33% this year, directly as a result of listening to feedback from the Your Say survey and the Company wishing to increase the reward offered to our employees.

c.13,500 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. A further c.3,200 have been recognised across the year with specific, ad hoc acknowledgements for their contribution for a job well done.

Our communities

We are committed to being a good neighbour and a responsible contributor to society, locally and nationally, 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, our colleagues and our neighbours and give back to the communities in which we trade.

Employee donations programme

The employee donations programme exists to help individual Mitchells & Butlers' employees (and retired employees) support a personal charity event or challenge of their choice and we made donations of around £3,200 to a large number of local and national causes including Calvert Trust, Alzheimer's Society and Breast Cancer Now.

Supporting Marie Curie Care

Once again, our businesses worked together to support the Marie Curie Great Daffodil Appeal during March. All of our restaurants and pubs sold the famous daffodil pins and raised more than £168,300 for the charity.

Big hearted brands, proud to serve those who serve

We have continued to raise funds for Cancer Research UK. Up and down the country our teams have been busy holding fundraising events, all of which have helped to raise over £77,000 for the charity.

In June, Toby Carvery showed their support for the armed forces by offering all military personnel a free carvery on Armed Forces Day. The offer was open to all military personnel, from serving troops and reserves to veterans and cadets and around 7,000 meals were donated by Toby Carvery teams across the country.

Crown Carveries offer our 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. Our Sizzling estate also offered the discount in FY 2016. The promotion has been run in conjunction with Defences Discount Service and Blue Light Cards and Savings for Life Savers.

Once again, we supported the Royal British Legion Poppy Appeal selling thousands of poppies to raise funds for thousands of serving and ex-Service people. Our businesses raised c.£168,300 for the charity.

Support for Birmingham Children's Hospital

We also support a local charity, close to many colleagues' hearts, Birmingham Children's Hospital.

The Retail Support Centre Social Committee has organised a series of fundraising events for Birmingham Children's Hospital, with employees taking part in a sponsored cycle in the office, quiz nights, a golf day and a number of raffles. Over the course of FY 2016 M&B has so far raised over £6,000.

£6,000

Raised for Birmingham Children's Hospital

Our financial and operating performance

On a statutory basis, profit before tax for the period was £94m (FY 2015 £126m) on sales of £2,086m (FY 2015 £2,101m).

The Group Income Statement discloses adjusted profit and earnings per share information that excludes separately disclosed items to allow a better understanding of the underlying trading of the Group. Separately disclosed items are described below and detailed in note 2.2 of the accounts. Adjusted earnings per share fell by 2.2% in 2016 to 34.9p.

At the end of the financial year, the total estate comprised 1,768 managed businesses and 57 franchised businesses, in the UK and Germany.

The forthcoming year, to 30 September 2017, will be a 53 week accounting year to maintain alignment of accounting and calendar dates.

Accounting policies

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

Revenue

The Group's total revenues fell by 0.7% to £2,086m, largely as a result of a fall in like-for-like sales, with a small number of acquisitions and disposals in the year.

Like-for-like sales growth/decline	Week 1–28 FY 2016	Week 29–52 FY 2016	Week 1–52 FY 2016
Total	(1.6%)	0.2%	(0.8%)
Food	(2.0%)	(0.8%)	(1.4%)
Drink	(1.5%)	1.3%	(0.1%)

Total like-for-like sales fell by 0.8%, recovering from a fall of 1.6% in the first half. Across the year, like-for-like food volumes fell by 5.7%, with food spend per head up 4.6%. The increase in food spend per head was driven partially by the changing balance of the estate, for example from Harvester sites being converted to Miller & Carter, which trades at a higher price point, as well as selective price increases. Drink sales reflected average spend per head growth of 4.1% offset by like-for-like volume decline of 4.0%.

Operating margins

Adjusted operating margins for the year were 15.2%, 0.4ppts below 2015. Margins in the first half were 0.5ppts higher than last year, having benefited from non-recurring savings on prior year costs such as the Orchid head office closure and IT projects.

In the second half, as anticipated, margins were below the prior year, by 1.3ppts. The introduction of the National Living Wage, in addition to National Minimum Wage increases earlier in the year, drove an increase in employment costs, which ended the year 5.2% higher than in 2015. Margin was also impacted by the cost of accelerating the level of investment in remodels and conversions in line with our priority of building a more balanced estate, with a greater number of closure weeks and pre-opening costs incurred. These factors were partially mitigated by food and drink sales being driven by increased spend per head, and by continued benign cost conditions in energy and food and drink input markets.

Adjusted operating profit for the year was £318m, 3.0% lower than 2015.

Looking forward to FY 2017, we see continued cost pressure facing the business as further increases in the National Living Wage and National Minimum Wage are compounded, in particular by:

- the impact of the weakness in sterling on our c.£100m of foreign currency denominated purchases; and
- the introduction of a new regime of business rates (effective from April 2017) which is likely to see an annual increase across our estate of £18m over five years (of which around £5m will impact in FY 2017).

We have a large number of activities underway to mitigate the cost headwinds as far as possible, both through cost savings and growing sales as detailed elsewhere in this report. However, we expect the net impact to put downward pressure on operating margins.

Separately disclosed items

Separately disclosed items comprise:

- an £80m charge relating to downward valuation movements on selected sites in the property portfolio resulting from the revaluation (FY 2015 £54m). Overall the property portfolio valuation increased by £128m to £4.4bn;
- an £8m charge for impairment of short leaseholds and unlicensed properties (FY 2015 £11m);
- a £1m net profit from the disposal of properties (FY 2015 £7m); and
- deferred tax credits relating to property revaluations and the future reduction in the standard UK corporation tax rate, as detailed below.

Interest

Net finance costs of £137m were £7m lower than the prior year. The net pensions finance charge of £12m was £3m lower than in 2015, and there was a reduction in the annual interest charge on reduced net borrowings.

For FY 2017 we expect the pensions finance charge to reduce to £7m.

Taxation

The tax charge of £5m in the year represents an effective rate on total profits of 5.3% (FY 2015 18.3%). This is mainly due to recognition of a deferred tax credit arising from the reduction in the standard rate of UK corporation tax to 17% from April 2020 (as enacted in the Finance Act 2016).

The effective tax rate on adjusted earnings was 20.4%.

Earnings per share

Adjusted earnings per share were 34.9p, 2.2% lower than last year. After the adjusted items described above, basic earnings per share were 21.6p (FY 2015 25.0p).

Cash flow and net debt

The cash flow statement below excludes £67m of mandatory bond amortisation (FY 2015 £61m), £31m drawn from unsecured revolving credit facilities (FY 2015 £nil) and, in the prior year, £120m transferred from cash to other cash deposits.

	FY 2016 £m	FY 2015 £m
EBITDA before adjusted items	**431**	439
Working capital movement/non-cash items	**(7)**	48
Pension deficit contributions	**(49)**	(86)
Cash flow from operations before adjusted items	**375**	401
Maintenance and infrastructure capex	**(115)**	(116)
Expansionary capex	**(52)**	(46)
Net interest	**(125)**	(127)
Tax	**(28)**	(25)
Disposals and other	**5**	8
Free cash flow before adjusted items	**60**	95
Dividend	**(31)**	–
Operating adjusted items	**–**	(6)
Net cash flow	**29**	89

The business generated £431m of EBITDA in the year. Pension deficit contributions of £49m were lower than the prior year, which included a one-off contribution of £40m agreed as part of the last triennial valuation. After capital expenditure, interest and tax, £60m of free cash before exceptional items was generated by the business (FY 2015 £95m).

Net debt was £1,840m, representing 4.3 times adjusted EBITDA (FY 2015 4.3 times). Net debt within the securitisation was £1,834m and net borrowings held outside the securitisation were £6m.

Capital expenditure

Total maintenance and infrastructure capex was £115m (FY 2015 £116m).

Expansionary capex of £52m was £6m higher than last year, driven by additional spend on conversions and major remodels in line with our strategic priorities, and a reduction in acquisition capex due to fewer new openings.

Total remodel activity increased to cover 175 sites (FY 2015 116) at an investment cost of £47m (FY 2015 £34m). Within this, certain large scale remodel projects, where the brand name or guest offer is materially altered by the nature and level of investment, are now included within expansionary capex.

The number of conversions has also increased from 51 to 77, including 12 Miller & Carter sites and 36 sites under our new Stonehouse concept.

	FY 2016		FY 2015	
	£m	No.	£m	No.
Maintenance and infrastructure (excluding remodels)	**81**		82	
Remodels – maintenance	**34**	**137**	34	116
Remodels – expansionary	**13**	**38**	–	–
Conversions	**31**	**77**	23	51
Sub-total	**78**	**252**	57	167
Acquisitions – freehold	**1**	**2**	10	4
Acquisitions – leasehold	**7**	**6**	13	10
Total capital expenditure	**167**		162	

The annual incremental EBITDA return on expansionary capital invested cumulatively since FY 2013 improved to 20% (FY 2015 18%).

Property

A red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall portfolio value has increased by £128m (FY 2015 decrease of £40m) reflecting an £88m separately disclosed charge in the income statement and a £216m 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. The discounted value of the minimum funding requirement agreed as part of the revised schedule of contributions is recognised in the balance sheet at £337m (FY 2015 £350m) before tax.

Negotiations are ongoing between the Company and the Trustees of the pension schemes regarding the latest valuation, which is to be prepared as at 31 March 2016.

Dividends

The Directors recommend the payment of a final dividend of 5.0p per share (full year 7.5p per share) to shareholders on the register as at 2 December 2016, to be paid on 7 February 2017.

The Board intends to make a scrip dividend alternative available to shareholders, subject to the relevant approvals at the AGM. Shareholders who wish to join the Scrip Dividend Scheme should complete a Scrip Dividend Mandate form and return it to the registrars no later than 17 January 2017.

Responsibility statement

We confirm to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- 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 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 position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 21 November 2016 and is signed on its behalf by:

Tim Jones
Finance Director

Governance

In this section

Chairman's introduction to Governance

Dear fellow shareholder

It gives me great pleasure 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 35 includes the Group's strategy, progress and performance for the year.

We were delighted to welcome four new Directors on to the Board during the year. Phil Urban was appointed as Chief Executive on 27 September 2015, bringing with him industry experience and a proven track record of operational delivery, and we are confident that he will build on the progress made over the past few years.

Josh Levy joined the Board as a nominated Director of Piedmont Inc., on 13 November 2015, in place of Douglas McMahon who stepped down on the same date. Subsequently, on 29 February 2016 we were delighted to appoint Dave Coplin as an independent Non-Executive Director. Dave is an acknowledged expert on the usage of technology and provides strategic advice and guidance around the role and optimisation of technology, both inside and outside of the world of work.

Finally, we welcomed Keith Browne to our Board on 22 September 2016, as a representative of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. Mr Browne is a chartered accountant and previously worked at KPMG Corporate Finance before retiring, now operating as an independent consultant.

We look forward to working with our new Directors on matters affecting the Group and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. 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.

Following the externally facilitated review of the Board's effectiveness last year, for 2016 we carried out an internal review.

The remainder of this report contains the narrative reporting required by the UK Corporate Governance Code, the Listing Rules and the Disclosure Guidance 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. The use of our Retail Support Centre in Birmingham as a venue for our AGM has proved to be a success (as well as a cost saving) and so we intend to use the same facility for the 2017 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

"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."

Knowledge and experience

Bob Ivell
Non-Executive Chairman

b c d

Phil Urban
Chief Executive

d e

Tim Jones
Finance Director

d e

Stewart Gilliland
Senior Independent Director

a b c

Eddie Irwin
Non-Executive Director

a b c

Josh Levy
Non-Executive Director

Ron Robson
Deputy Chairman

a b c

Colin Rutherford
Independent Non-Executive Director

a b c d

Imelda Walsh
Independent Non-Executive Director

a b c

Keith Browne
Non-Executive Director

Dave Coplin
Independent Non-Executive Director

a b c

Key
a. Member of the Audit Committee
b. Member of the Remuneration Committee
c. Member of the Nomination Committee
d. Member of the Market Disclosure Committee
e. Member of the Executive Committee

Bob Ivell
Non-Executive Chairman Aged 64

Appointed to the Board in May 2011, Bob 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, a Non-Executive Director of Charles Wells Limited and President of The Association of Licensed Multiple Retailers. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic 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, Park Resorts and David Lloyd Leisure Limited, 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 and of the Market Disclosure Committee.

Phil Urban
Chief Executive Aged 53

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).

Tim Jones
Finance Director Aged 53

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.

Stewart Gilliland
Senior Independent Director Aged 59

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 Curious Drinks Limited and a Non-Executive Director of C&C Group plc and Nature's Way Foods Limited.

Eddie Irwin
Non-Executive Director Aged 57

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 graduated from University College, Dublin, with a B Comm Degree and he is a Fellow of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators.

Josh Levy
Non-Executive Director Aged 26

Appointed a Non-Executive Director in November 2015, Josh is a nominated shareholder representative of Piedmont Inc., a significant shareholder in Mitchells & Butlers. Josh is an Investment Analyst at Tavistock Group having previously worked in the Investment Banking Division of Investec Bank. Josh holds an MSc and a BA (Hons) from the University of Nottingham.

Ron Robson
Deputy Chairman Aged 53

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.

Colin Rutherford
Independent Non-Executive Director Aged 57

Appointed as an independent Non-Executive Director in April 2013, Colin is currently Chairman of Brookgate Limited and Teachers Media plc. He is also a Non-Executive Director of Evofem Biosciences Inc. and Renaissance Services SAOG amongst his other activities. He was formerly Executive Chairman of MAM Funds plc and Euro Sales Finance plc and has served as a Director of 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 Chairman of the Audit Committee, and serves on all other independent governance committees.

Imelda Walsh
Independent Non-Executive Director Aged 52

Appointed as an independent Non-Executive Director in April 2013, Imelda is a Non-Executive Director, and Chair of the Remuneration Committees of William Hill plc and FirstGroup plc. She was a Non-Executive Director, and Chair of the Remuneration Committee, of Mothercare plc from 2013 to 2016 and 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.

Keith Browne
Non-Executive Director Aged 47

Appointed as a Non-Executive Director in September 2016, Keith is a representative of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. Keith obtained a Bachelor of Commerce Degree from University College Dublin, qualified as a chartered accountant in 1994 and subsequently gained an MBA from University College Dublin. After joining KPMG Corporate Finance in 1996, he became a partner in the firm in 2001 and Head of Corporate Finance in 2009. He retired from the partnership to operate as an Independent Consultant in 2011.

Dave Coplin
Independent Non-Executive Director Aged 46

Appointed as an independent Non-Executive Director in February 2016, Dave is the Chief Envisioning Officer for Microsoft Limited and an established thought leader on the role of technology in personal and professional lives. For over 25 years he has worked across a range of industries and customer marketplaces, providing strategic advice and guidance around the role and optimisation of technology in the modern society both inside and outside of the world of work.

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 24 September 2016. The Business review of the Company and its subsidiaries is given on pages 25 to 27 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 20 to 24 and 52 and 53, 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 pages 18 and 19.

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 35 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 2016 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 24 September 2016 comprised a single class of ordinary shares of which 413,624,294 shares were in issue and listed on the London Stock Exchange (26 September 2015 412,520,626 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 1,584,503 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 126. 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 £94,272 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 78 in the Report on Directors' remuneration.

Dividend

An Interim Dividend of 2.5p was paid during the year (FY 2015 interim dividend nil, final dividend 5p). The Board recommends a final dividend for the year ended 24 September 2016 of 5p per share to be paid on 7 February 2017 to shareholders on the register at close of business on 2 December 2016. This makes a total dividend for the year of 7.5p per share (FY 2015 5p). As set out in the Notice of the Annual General Meeting sent to shareholders with this Annual Report, the Company will seek authority from its shareholders at that meeting to offer a scrip dividend alternative to a cash dividend. More details of that scrip dividend alternative are set out in the explanatory notes which accompany that Notice.

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	26.58	Direct holding
Elpida Group Limited	95,553,211	23.10	Direct holding
Smoothfield Holding Limited	17,936,260	4.34	Direct holding
Standard Life	45,716,080	11.05	Indirect holding

* Using the total voting rights figure announced to the London Stock Exchange for 31 October 2016 of 413,660,130 shares.

Directors

Details of the Directors as at 21 November 2016 and their biographies are shown on pages 38 and 39. The Directors at 24 September 2016 and their interests in shares are shown on page 78. Phil Urban, Josh Levy, Dave Coplin and Keith Browne were appointed as Directors on 27 September 2015, 13 November 2015, 29 February 2016 and 22 September 2016 respectively. Douglas McMahon, a nominated Director of Piedmont Inc., stepped down from the Board on 13 November 2015. 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. Dave Coplin and Keith Browne will offer themselves for election for the first time and all the other Directors will 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 the Deed of Appointment referred to in this report but there is no equivalent agreement in place between the Company and Elpida. The Elpida representatives were appointed with the approval of the Board in March 2012 and September 2016. 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, Josh Levy, Dave Coplin and Keith Browne. 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
2013 Performance Restricted Share Plan	Awards vest pro rata to performance and time elapsed and lapse six months later
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 44,463 people in FY 2016 (FY 2015 44,492). 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 engagement 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.

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.

In summer 2016, the business implemented its STAR programme, a universal training needs analysis and learning resource for all retail roles. STAR is supported by coaching material that has been produced for every technical task associated with a job in hospitality, the visual training library enables our teams to access up to date and relevant information from any hand held or desk top device, and a progress report enables every member of the organisation to understand the skills and progress of our people.

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.

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 two other plans on a selective basis, which are the 2013 Performance Restricted Share Plan and the 2013 Short Term Deferred Incentive Plan. Further details on the plans are set out in the Report on Directors' remuneration.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. During FY 2016, the employee benefit trust purchased 270,000 shares in the Company.

Political donations

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2017 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 113. 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 82 to 138 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 95 for the Company's going concern statement, and page 24 for the Company's long-term viability statement.

Annual General Meeting

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

Auditor

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 8.91% during the 2015/16 tax year in comparison to 2014/15 in response to a range of behavioural change activities and ongoing investment in increasing the energy efficiency of our buildings and equipment.

Assessment parameters	
Assessment year	2015/16 Tax Year
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during the 2015/16 tax year were included.
Scope	General classifications of greenhouse gas 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 greenhouse gas emissions from sources that are owned or controlled by the Group, e.g. 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 Group, but occurring from sources not owned or controlled by the Group. 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 2015/16 and 2014/15 tax years 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. 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_2e value of logs has been calculated to be <1% and would be excluded in any case as this falls below the materiality threshold.
Emission factor data source	All carbon emission factors used are consistent with details provided in the respective Carbon Reduction Commitment submissions.
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_2e 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 2014/15 tax year are provided for comparative purposes.

Greenhouse gas emissions source	2014/15 (tCO$_2$e)	2014/15 (tCO$_2$e/£m)	**2015/16 (tCO$_2$e)**	**2015/16 (tCO$_2$e/£m)**	**Change from previous year (tCO$_2$e)**	**Change from previous year (tCO$_2$e/£m)**	**Change from previous year % movement in tCO$_2$e/£m**
Scope 1	95,771	47.7	**95,474**	**45.7**	**(297)**	**(2.0)**	**(4.19%)**
Scope 2	217,461	108.3	**201,584**	**96.4**	**(15,877)**	**(11.9)**	**(10.99%)**
Statutory total (Scope 1 & 2)*	313,232	156.0	**297,058**	**142.1**	**(16,174)**	**(13.9)**	**(8.91%)**

* Statutory carbon reporting disclosures required by the Companies Act 2006.

Modern Slavery Act 2015

In accordance with the requirements of the Modern Slavery Act, the Board has approved and the Company has accordingly published its compliance statement on its website. This can be accessed at www.mbplc.com

By order of the Board

Greg McMahon
Company Secretary and General Counsel
21 November 2016

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), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- 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.

This responsibility statement was approved by the Board of Directors on 21 November 2016 and is signed on its behalf by:

Tim Jones
Finance Director
21 November 2016

Corporate governance statement

Corporate governance statement

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

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 2014 UK Corporate Governance Code (the 'Code'), which is issued by the Financial Reporting Council and which is available at www.frc.org.uk, and for maintaining appropriate relations with shareholders.

The Company is reporting against the 2014 edition of the Code which was published in September 2014 and applies to reporting periods beginning on or after 1 October 2014. In 2015 we reported against the 2012 edition of the Code, and the key changes between the two Codes relate to going concern and statements relating to the Company's long-term viability, risk management and internal control, remuneration and shareholder engagement following significant votes against a resolution. The Board adopted some of the provisions in the 2014 Code earlier than required.

The latest financial information for Mitchells & Butlers and its group of companies is included in the 2016 Annual Report and Accounts (of which this corporate governance statement forms part) and which are available online at: www.mbplc.com/investors

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 24 September 2016 with all the provisions and best practice guidance of the Code except those in respect of Board composition and constitution of the Board Committees. 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 54 to 57 and pages 50 and 51 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 in FY 2016. 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 four divergences from full compliance with the Code as set out below by reference to specific paragraphs in the Code:

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

During the year, Code 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. Accordingly, this had consequential implications on the composition of the standing Board Committees. During the year, one non-independent Non-Executive Director resigned and three new Non-Executive Directors were appointed, one of whom is regarded as an independent Non-Executive Director. Additionally, an Executive Director was appointed.

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. Throughout FY 2016, 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 Guidance and Transparency Rule ('DGTR') 7.1 is set out in the Audit Committee report on pages 54 to 57. The information required by DGTR 7.2 is set out in this corporate governance statement, other than that required under DGTR 7.2.6 which is set out in the Directors' report on pages 40 to 45.

Board composition

The Board started the year with nine Directors (including Phil Urban who was appointed at the start of FY 2016). One Director resigned (Douglas McMahon) and four were appointed (Phil Urban, Josh Levy, Dave Coplin and Keith Browne), ending the year with eleven Directors. The table lists the composition of the Board during the year.

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 2016 there were 11 scheduled Board meetings. There were also four meetings of the Audit Committee, five meetings of the Remuneration Committee and two meetings of the Nomination Committee. The table 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 four 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 2017.

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 2016, the Company Secretary also co-ordinated an internal performance evaluation of the Board. 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 the year				
Bob Ivell	11 (11)	n/a	5 (5)	2 (2)
Keith Browne (appointed 22 September 2016)	1 (1)	n/a	n/a	n/a
Dave Coplin (appointed 29 February 2016)	7 (7)	2 (2)	3 (3)	1 (1)
Stewart Gilliland	11 (11)	4 (4)	5 (5)	2 (2)
Eddie Irwin	11 (11)	4 (4)	5 (5)	2 (2)
Tim Jones	11 (11)	n/a	n/a	n/a
Josh Levy (appointed 13 November 2016)	10 (10)	n/a	n/a	n/a
Douglas McMahon[1] (resigned 13 November 2015)	– (1)	n/a	n/a	n/a
Ron Robson[2]	10 (11)	3 (4)	5 (5)	1 (2)
Colin Rutherford	11 (11)	4 (4)	5 (5)	2 (2)
Phil Urban (appointed 27 September 2015)	11 (11)	n/a	n/a	n/a
Imelda Walsh	11 (11)	4 (4)	5 (5)	2 (2)

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 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.
2. Mr Robson did not attend one Board, Audit Committee and Nomination Committee meeting during the year but Mr Levy, the other representative to the Board nominated by Piedmont Inc., did attend the respective meetings.

Directors

The following were Directors of the Company during the year ended 24 September 2016:

		Date appointed	Date of change of role
Directors who served during the year			
Bob Ivell	Independent Non-Executive Director[1]	09/05/11	14/07/11
	Interim Chairman[1]	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne[2]	Non-Executive Director	22/9/16	–
Dave Coplin	Independent Non-Executive Director	29/2/16	–
Stewart Gilliland	Independent Non-Executive Director	23/05/13	–
	Senior Independent Director	02/02/15	–
Eddie Irwin[2]	Non-Executive Director	21/03/12	–
Josh Levy[3]	Non-Executive Director	13/11/15	–
Tim Jones	Finance Director	18/10/10	–
Douglas McMahon[4]	Non-Executive Director	15/10/10	n/a
Ron Robson[3]	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
Colin Rutherford	Independent Non-Executive Director	22/04/13	–
Phil Urban	Chief Executive	27/9/15	–
Imelda Walsh	Independent Non-Executive Director	22/04/13	–

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Group Limited.
3. Nominated shareholder representative of Piedmont Inc.
4. Resigned 13 November 2015.

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

On 29 February 2016, Dave Coplin was appointed as an independent Non-Executive Director.

On 22 September 2016, Keith Browne was appointed to the Board. He is a nominated shareholder representative of Elpida Group Limited.

At the start of the year, the Board was made up of eight male and one female members. At the end of the year the Board was made up of ten male and one female members.

The Executive Directors have service contracts which are summarised on page 70. 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 Dave Coplin and Keith Browne, 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 21 November 2016 are set out on page 39, including their main commitments outside the Company.

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 the 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. He also chairs the Market Disclosure Committee and the Property 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 51) and attends the Nomination, Remuneration and Audit Committee by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of both the Market Disclosure Committee and the Property Committee.

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

Chairman

The UK Corporate Governance Code provides that the Chairman should, on appointment, meet the independence criteria set out in provision B.1.1 of that 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.

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.

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 one of the Company's largest shareholders, Piedmont Inc., and were therefore not regarded as independent in accordance with the Code. 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 was appointed to the Board as a representative of another of the Company's largest shareholders, Elpida Group Limited and is therefore not regarded as independent in accordance with the Code. Keith Browne was appointed as an additional representative of Elpida Group Limited on 22 September 2016 and he likewise is not regarded as independent.

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

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 74, 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, including corporate social responsibility and corporate governance as well as the environmental impacts of the Company's activities.

Committees

Each Board Committee has written terms of reference approved by the Board, which are available on the Company's website. Those terms of reference are each reviewed annually by the relevant Committee to ensure they remain appropriate.

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 54 to 57 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 58 to 81.

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 for the Board and the Executive Committee and reviewing the output of the Board effectiveness review.

During the year, the Nomination Committee considered the composition of the Board, the appointment of new Non-Executive Directors and commissioned the internally-facilitated Board effectiveness review.

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 makes the proportion of women on the Board 9% as at the year ended 24 September 2016. 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.

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 28 to 31.

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 24/09/16
Bob Ivell (Chair)	11/07/13	Y
Dave Coplin	29/02/16	Y
Stewart Gilliland	11/07/13	Y
Eddie Irwin	11/07/13	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

During the year, the Company did not comply with provision B.2.1 of the Code because 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.

Market Disclosure Committee

The EU Market Abuse Regulation (MAR) took effect in July 2016 and brought about substantial changes relating to announcements of material information about the Company and its affairs, and relating to dealings in shares or other securities by Directors and other senior managers, including tighter controls on permitted 'dealings' during closed periods and the handling of information relating to the Company. MAR requires companies to keep a list of people affected and the previous compliance regime and timeframe were enhanced.

In the light of these new requirements, it was decided to establish a new formal standing Committee of the Board. This Committee, called the Market Disclosure Committee, is comprised of the Chairman, the Chief Executive, the Finance Director and an independent non-executive Director, currently Colin Rutherford.

Executive Committee

The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior Executives, namely Gary John (Group Property Director), Susan Martindale (Group HR Director), Greg McMahon (Company Secretary and General Counsel), Chris Hopkins (Commercial Director) and Susan Chappell, Nick Crossley, Dennis Deare and Rob Pitcher (all Divisional Directors).

The Executive Committee meets at least every six 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 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.

Property Committee

In October 2016 the Board established a Property Committee to review property transactions which have been reviewed and recommended by the Portfolio Development Committee, without the need for submission of transactions to the full Board. The Property Committee will agree to the overall strategic direction for the management of the Group's property portfolio on a half-yearly basis and may decide that a particular transaction should be referred to the Mitchells & Butlers plc Board for consideration or approval. The Property Committee comprises Bob Ivell (Committee Chair), Phil Urban, Tim Jones, Josh Levy, Keith Browne, Colin Rutherford, Stewart Gilliland and Gary John.

Portfolio Development Committee

The executive review of property transactions and capital allocation to significant property matters such as site remodel and conversion plans and the Company's real estate strategy is carried out by the Portfolio Development Committee. This is not a formal Board Committee but is comprised of the Chief Executive, the Finance Director, the Group Property Director and the Company Secretary and General Counsel. It has delegated authority to approve certain transactions up to agreed financial limits and, above those authority levels, it makes recommendations to the Board or, from October 2016, to the Property 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 compliance with the requirements of 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 has taken steps during FY 2016 to comply with its disclosure requirements. The Company's compliance statement in relation to the Modern Slavery Act can be viewed on the Company's website www.mbplc.com

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:
  - i. 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, the Audit Committee and the Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met six times during FY 2016, 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:

  i. 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;
  ii. 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.

The Group's risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 20 to 24. More details of the work of the Risk Committee are included in the Audit Committee report on pages 54 to 57.

- 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 the 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. The Company carried out a full tender process in respect of its insurance brokerage adviser in FY 2015 and, following the appointment of a new broker, the Company has successfully developed and implemented a new insurance programme in FY 2016.

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 one governance meeting with an institutional investor.

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

During FY 2015, the Board carried out an externally-facilitated self-evaluation review. Following this, during FY 2016, the Nomination Committee commissioned an internal self-evaluation review in which the Board continued to review the effectiveness of individual Directors. The conclusions of that review have been reported on to the Board and appropriate actions relating to adjustments and improvements to the way in which the Directors, the Board and its Committees interact have been agreed upon. None of these constitute significant changes to the pre-existing operational practices of the Board or its Committees but, rather, fall within the ambit of continuous review and evolution.

The Senior Independent Director, Stewart Gilliland, has led the process for the annual appraisal of the Chairman's performance with the independent Non-Executive Directors (without the Chairman present) and the conclusions were fed back to the Chairman.

Annual reviews of the Chairman's performance will continue to be conducted as required by the Code. Further, 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 43.

Audit Committee report

Introduction from the Audit Committee Chairman

I am delighted to present, on behalf of the Board, the report of its Audit Committee for the financial year ended 24 September 2016.

I continue to have the benefit of spending valuable time with those key individuals throughout the Group who collectively provide an appreciation and rigorous insight into how our Group functions and reports. These discussions are extremely valuable and I am grateful for the insight which they provide to me. I am sure this is a significant factor in the efficient running and operation of the Audit Committee's oversight role.

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 Risk Director. This has enabled the Committee to ensure that it maintains an appropriate understanding of how our auditors and third-party advisers interact with our Group assurance and risk management function which, in turn, ensures that these key stakeholders are able 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 the provision of sufficient resources by the Company and its subsidiaries to ensuring any additional assurance is obtained where considered appropriate. All of these efforts provide the Committee with a detailed and clear understanding of the status of the business of the Group and of its principal components and, of equal importance, of the overall systems and processes of the Group at all levels.

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 importance of, and acting as required upon, 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 2016 Annual Report, the Audit Committee comprises four independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Stewart Gilliland and Dave Coplin, and two further Non-Executive Directors nominated by substantial shareholders, Ron Robson and Eddie Irwin. In accordance with Code provision C.3.1 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 respective experience, appear on page 39.

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 were established, in order to comply with Code requirements. Those terms of reference are reviewed annually and, during FY 2016, were updated to reflect the consequential changes introduced by the implementation, in July 2016, of the Market Abuse Regulation.

The Audit Committee met four times during FY 2016. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm and the internal Group Assurance function.

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 other members of the Board including the Chief Executive and the Finance Director, 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 74.

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.

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 the 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 on the 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 safeguarding of audit independence;
- the co-ordination of the activities and the work programmes 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 2016 regarding the level of achievement and the scope of the annual internal audit plan for FY 2017;
- 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 effectiveness of controls;
- 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 2016.

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 90 to 129.

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 short leasehold impairment such as trading levels and the use of an appropriate discount rate; 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 2016 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 2017 internal audit plan.

The principal objectives of the internal audit plan for FY 2016 were, and remain for FY 2017:

- 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 2016, 16 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 20 to 24 the Risk Committee continues to meet on a regular basis to review the key risks facing the business. The Risk Committee met on six occasions in FY 2016. 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
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Senior Legal Counsel

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. During FY 2016, two Risk Committee meetings included a new cross-functional, detailed review of the Group's key risks. This process has proved to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

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 undertaking a quarterly review of the Group's 'Key Risk Heat Map'.

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 2016 (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 recent 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 set out in below. That policy has been reviewed in FY 2016 and a copy of it is appended to the Audit Committee's terms of reference. Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

- audit services, including work related to the annual Group financial statements, 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 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.

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the audit firm.

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, significant risks and any key issues included on the Audit Committee's agenda during the year.

The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Fair, balanced and understandable statement

One of the key governance requirements of the 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 have confirmed that they 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 comprised of relevant internal functional representatives and appropriate external advisers;
- clear guidance being issued to all contributors to ensure a consistent approach; and
- formal review processes at all levels to ensure the Annual Report is factually correct.

Colin Rutherford
Chairman of the Audit Committee

21 November 2016

Long-term viability statement
See page 24

Report on Directors' remuneration

Imelda Walsh
Chair of the Remuneration Committee

I am pleased to present the Directors' remuneration report in respect of the financial year which ended on 24 September 2016.

Background and business context

At the start of the 2016 financial year Phil Urban was appointed as Chief Executive. As I explained in my statement last year Phil brought to the role extensive experience and a strong track record in the industry and, having joined M&B earlier in 2015 as Chief Operating Officer, had already established good working relationships with the Board and senior management. This enabled Phil to undertake a review of the business very quickly and establish his strategic priorities. This review concluded that the best way of delivering sustainable shareholder returns was to accelerate the organic growth of the business by focusing on three key objectives:

- Building a more balanced business
- Instilling a more commercial culture
- Driving an innovation agenda.

Good progress has been made during the year against these objectives. We have carried out a full review of the estate, and as a result have identified a number of opportunities; in some cases to convert into more optimal brands, and in others to develop the existing brand and guest offer through remodel investment. For example, this approach has seen us increase the number of Miller & Carter businesses through successful acquisitions and conversions, and we have also evolved our Pizza & Carvery offer into Stonehouse, a new brand in its own right. Overall, we have significantly increased the number of remodels and conversions, improving amenity level across the estate, which reflects the level of capital being invested in the guest-facing areas of our businesses. A number of other work streams were established to support the second and third priorities, aimed at taking a structured approach to delivering a wide range of operational and other improvements. The main areas of focus for these work streams, which will continue into FY 2017, were digital and technology, new market opportunities, including home delivery, and better operational effectiveness.

Trading over the first half of the year was disappointing with sales declining by 1.6%, however performance improved over the second half as the initiatives described above began to take effect, with sales improving on a like-for-like basis by 0.2%. We ended the year with total sales falling by 0.7% and like-for-like sales of minus 0.8%. Operating Profit fell by 3% to £318m which was linked to the decline in total sales and was also a result of wage inflation, primarily driven by the introduction of the National Living Wage ('NLW') in April 2016. The higher levels of investment increased the number of weeks that businesses were closed for development or refurbishment.

2016 remuneration

The 2016 annual bonus plan had two elements, Adjusted Operating Profit (Operating Profit[1]) and Guest Service. Reported Operating Profit of £318m was short of the threshold level set by the Committee and therefore no bonus under this element was payable.

The primary measure of Guest Service was Net Promoter Score (NPS), which used a guest survey to measure satisfaction. At the time the Committee set the targets, the Company was reviewing both the survey provider and the method by which data was collected. Therefore, the Committee decided that additional guest metrics would be reviewed alongside the NPS score to ensure that any final assessment of guest service improvement was robust. The Guest Service measure was also subject to Operating Profit achieving a threshold level of performance. Under the old survey basis, the NPS score achieved was 67.1%, which would, potentially, have triggered the maximum pay-out under this element. However, as described above, the Committee would still have taken into account other metrics such as guest complaint resolution and data from TripAdvisor. In the view of the Committee this would have led to a probable reduction in the percentage due under this element. However, as the threshold level of Operating Profit had not been achieved, no award under this bonus element was made.

The 2014-2016 Performance Restricted Share Plan ('PRSP') performance condition also had two elements, growth in adjusted earnings per share ('EPS'[1]) and total shareholder return ('TSR'), each element weighted equally. Over the performance period EPS growth was 2.7% p.a., below the threshold level of performance required for vesting. TSR performance was also below the median threshold required for vesting. As a result, awards under both elements lapsed.

In June 2016 an award was made under the terms of the PRSP in respect of the 2016-2018 performance period, details of which are set out on pages 75 and 76. In my statement last year, I outlined the Committee's intention to delay the granting of this award. A new CEO had just been appointed and Phil had initiated a review of all aspects of the business. The Committee wanted the new strategic priorities, once presented to and agreed by the Board, to be considered by the Committee before agreeing the design and targets for the FY 2016 PRSP award. Following a period of consultation with major shareholders and investor groups, the Committee agreed to retain the existing plan structure, and therefore two performance conditions, growth in adjusted EPS and relative TSR apply. The EPS target range has a threshold level of performance set at 4% growth p.a. and maximum set at 8% growth p.a. The Committee believed that this represented a demanding range in the context of the earnings forecast at the time of the award, given the significant cost challenges the business faced. These included the introduction of the National Living Wage in April 2016. At the time of setting the targets, a 4% to 8% p.a. growth range was broadly equivalent to 9.5% to 13% p.a. growth if the expected impact of the National Living Wage was excluded.

1. Adjusted earnings per share and adjusted operating profit included in the report on Directors' remuneration, are quoted before separately disclosed items as set out in note 2.2.

Approach for 2017

No changes to the remuneration policy are sought this year, but I would like to draw attention to the following points:

Annual Bonus

- The annual bonus plan will continue to be based 75% on Operating Profit and 25% on Guest Service.
- The Committee will continue to set demanding targets for both Operating Profit and Guest Service. The threshold at which a bonus will begin to accrue will be set at 95% of target, slightly lower than in 2016, reflecting the demanding nature of the target set by the Committee. Maximum payment for the Operating Profit element will be for achievement of 105% of target, increased from 103% in 2016. The amounts payable at threshold, target and maximum remain unchanged from 2016.
- The Committee felt that a slightly wider performance range was appropriate given the ongoing economic uncertainty and continuing cost pressures, including the additional costs associated with the accelerated investment in our estate, which increases the number of closure weeks due to site redevelopment. Whilst these closures have a short-term impact, in the medium term good returns are anticipated. There is also an expectation that the other work streams referred to above will begin to positively impact sales, and there may be some further benefit as we see higher wages from the introduction of the NLW flowing through to the wider economy.
- NPS will continue to be the lead measure of Guest Service. The targets are now based on the new survey, which the Committee believes has a more robust method of collecting data and therefore result validity. Guests are being invited to provide feedback in different ways, either directly by a member of the team or by email or text invitation following their visit. Again, the Guest Service element will only be payable if the threshold level of financial performance is achieved. For 2017 this has been set at 95% of target in line with the threshold level set for Operating Profit.
- The Committee has also agreed that prior to any bonus being approved in relation to Guest Service, progress against other guest metrics will be considered, such as TripAdvisor reviews and the speed at which guest complaints are addressed. This rounded assessment will ensure that guest service improvements are assessed comprehensively and not solely based on a single metric.
- More broadly, the Committee is committed to ensuring that any bonus or incentive payment is consistent and representative of the overall performance of the Company.

Performance Restricted Share Plan (PRSP)

- A PRSP award is due to be made in respect of the 2017 to 2019 performance period. The Committee has reviewed the terms of the award and concluded that the performance measures should remain unchanged from the June 2016 award, with two equal elements, growth in adjusted EPS ('EPS'[1]) and relative TSR. The Committee has also concluded that the EPS target range should remain unchanged, with the threshold set at 4% growth p.a. and maximum vesting at 8% growth p.a.
- In setting the EPS target range, the Committee has considered the impact on earnings resulting from the ongoing work to reposition the estate, and the impact of the NLW. In addition, the past 6 months has seen further cost headwinds emerge, for example the impact of weaker sterling on input costs, the Apprenticeship Levy and increases to utility, rent and business rates. In light of this, the Committee believes the EPS range remains very challenging in the circumstances.
- To further understanding, the Committee has decided to include an update on performance for all outstanding PRSP awards. At the present time, our assessment is for nil vesting for the 2015-2017 and nil to threshold vesting for 2016-2018 PRSP awards. Further information can be found on page 75.

Salary

No salary increase will apply for any Executive Director. Phil Urban's salary will remain at £510,000 and Tim Jones' as £426,500. Salaries will next be reviewed as part of the upcoming Remuneration Policy review.

Remuneration Policy Review

As our Remuneration Policy was approved at the 2015 AGM we will, over the coming year, undertake a review of our policy prior to submitting a new Remuneration Policy for consideration and approval at the 2018 AGM. This review will take into account all relevant factors, including the implementation of the business strategy and other external impacts. It is not possible at this stage to determine if any changes to the current policy will be necessary, but should this be the case then, as ever, the Committee is committed to maintaining an open and constructive dialogue with shareholders on remuneration matters.

The Committee and I are particularly cognisant of emerging practice and guidance in relation to executive pay and the potential for further evolution over the coming months. One area of particular focus is the relationship between CEO pay and that of the wider workforce, and with this in mind the Committee has decided to include the pay ratio of the CEO's total pay versus median pay of other employees in this year's report, details of which can be found on page 80. We have provided this additional disclosure but look forward to greater debate and clarification over the method of calculation and how this additional information will inform discussion on executive remuneration.

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

Imelda Walsh
Chair of the Remuneration Committee
21 November 2016

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, highlights performance and remuneration outcomes for FY 2016, and our approach for FY 2017. More detail can be found in the annual report on remuneration on pages 72 to 81.

Remuneration principles

Shareholder alignment

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

Competitive

Providing 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.

FY 2016 annual bonus

The annual bonus was based on two elements: 75% on Operating Profit and 25% on Guest Service as measured by our NPS.

	Target	Actual	Result
Operating Profit	£335m	£318m	Nil bonus due
NPS	66%	67.1%	Nil bonus due*

* While the NPS target was achieved, no bonus was payable as the threshold level of financial performance had not been achieved, this being £328m Operating Profit in respect of FY 2016.

No bonus awards have been made to Executive Directors in respect of FY 2016 performance.

FY 2016 PRSP vesting

The PRSP awards granted in 2013 had a performance period ending on 24 September 2016. 50% of the award was based on relative TSR performance and 50% on EPS[1] growth.

	Target	Actual	% vesting
Total Shareholder Return relative to peer group	Median – median x 1.35	Below median	Nil
Compound annual adjusted EPS growth	8% – 16% CAGR	2.7% p.a.	Nil

TSR performance was below median and EPS growth of 2.7% p.a. over the period was below the threshold, therefore no part of the award vests.

FY 2016 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
	2016	**2016**	**2016**	**2016**	**2016**	**2016**
Phil Urban	509	15	–	89	–	**613**
Tim Jones	425	15	–	75	–	**515**
Total	**934**	**30**	**–**	**164**	**–**	**1,128**

Approach for FY 2017

Salary	No increases to salary will apply for Executive Directors.
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 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	Award levels remain unchanged, 200% of salary for the Chief Executive and 140% of salary for the Finance Director. No change to the performance condition proposed, which will continue to have two equally weighed elements, adjusted EPS growth and relative TSR. Threshold vesting under the EPS element will be 4% growth p.a. and maximum vesting is achieved at 8% growth p.a. Under the TSR element threshold vesting is achieved for TSR performance equivalent to the median of the comparator group and maximum vesting is achieved for upper quartile performance.

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 the salaries effective from 1 January 2017 and the value of benefits paid in FY 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.

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.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Annual Performance 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.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Performance Restricted Share Plan ('PRSP')				
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 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.	Clawback and malus applies on the same basis as the annual bonus.

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. **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.	**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.
Pension (or cash allowance)				
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.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
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. 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. 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. Executive Directors may become eligible for any new benefits introduced to a wider set of other Group employees.	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 than if relocation costs were provided. A proportion of any relocation costs may be recovered where a Director leaves the employment of the Group within two years of appointment or date of relocation.
Shareholding policy				
To align the interests of the Executive Directors with shareholders and promote a long-term approach to risk management.	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. 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.	n/a	n/a	n/a

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 key 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.

Table 2

Remuneration and benefits	
Provision of Company car or cash alternative	A Company car or cash alternative is provided only where it is determined that there is a commercial requirement or business need to do so.
Private healthcare	The majority of employees entitled to receive private healthcare do so on an employee only basis. Private healthcare is not provided to assistant management appointed on or after 30 September 2012, or to retail staff.
Health check	A Company funded health check is available on request to senior and middle management retail support employees. Other salaried employees have access to online health and wellbeing support through the Company's Employee Assistance Programme ('EAP').
Employee Assistance Programme	The EAP is available to all salaried employees and provides employees with confidential health and wellbeing help and support. The EAP is not available to retail staff.
Pension	The Company contribution to the DC Choice pension plan is between 4.5% and 15% of base salary; assistant management and retail staff employees who are not eligible for the DC Choice pension plan receive a Company contribution of either 1x the member contribution up to 3% of Qualifying Earnings* (assistant management scheme) or the statutory minimum (automatic enrolment scheme).
Life assurance	Assistant management and retail staff employees who are not eligible to join the DC Choice pension plan do not have life assurance.
Relocation	Relocation may be made available to Retail Support Centre employees where the Company requires an employee to relocate for business purposes. Relocation is not normally provided to retail management or retail staff.
Discount vouchers	The discount voucher scheme is approved by HMRC; as the amount payable by the employee, after application of the discount, exceeds the cost of goods the scheme is not considered to be a benefit in kind for tax purposes.
Other benefits	Other benefits such as childcare vouchers, bike to work and private dental cover are not listed above as a taxable benefit to the Executive Directors. Where an Executive Director participates, he does so at his own cost as the benefit is administered by, but not funded by, the Company. NICwise, a National Insurance efficient way for a member to make contributions to the pension plan, is provided at no cost to the employee or Company, The range of benefits offered to Executive Directors is offered to all senior management employees of the Group.
Shareholding policy	The shareholding policy is only in place for Executive Directors.

* As defined by legislation.

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 (e.g. 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

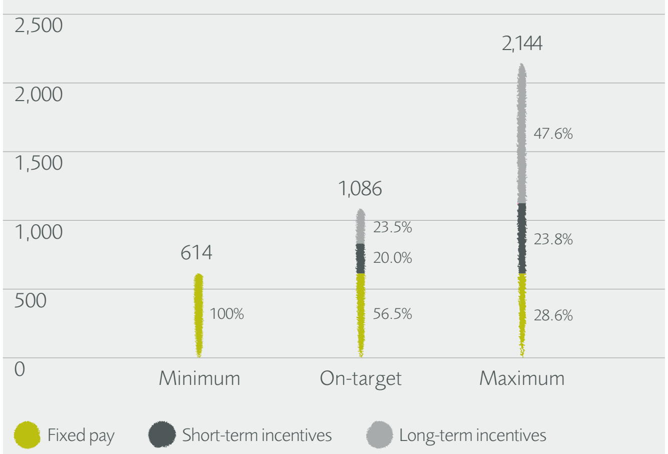
Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Fees				
To attract and retain Non-Executive Directors of appropriate calibre and experience.	Payable in cash, four-weekly throughout the year. Fees are normally reviewed annually with any increase usually taking effect from 1 January each year. 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.	Where a Non-Executive Director undertakes additional responsibilities, other than the chairing of a committee, additional fees may be set, e.g. for a Senior Independent Director.	No performance metrics apply.	No recovery or withholding applies.

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.

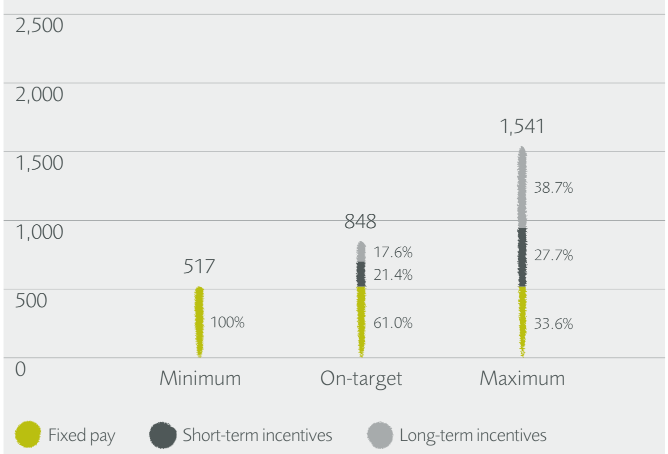
Illustrations of application of remuneration policy

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 2017.

Chief Executive (£000)



Finance Director (£000)



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

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2017. Benefits are based on actual FY 2016 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 2017.

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)				**Short-term plan (£000)**		**Long-term plan (£000)**	
	Base pay	Benefits	Pension	Total fixed	On-target	Maximum	On-target	Maximum
Chief Executive	510	15	89	614	217	510	255	1,020
Finance Director	426.5	15	75	516.5	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.

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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 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
Phil Urban[a]	27/9/15	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Phil Urban became Chief Executive and joined the Board on 27 September 2015. 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. During the year Tim Jones acted as an independent Non-Executive Director and Chairman of the Audit and Risk Committee of Poundland Group plc. Tim stepped down from the Board of Poundland Group Plc on 16 September 2016, following the acquisition of Poundland Group Plc by Steinhoff Europe AG. No other Non-Executive appointments applied in the year to 24 September 2016.

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 2017 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 72.

Ron Robson and Josh Levy were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on page 41.

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 2017 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 62.

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 pages 65 and 66.

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 Living Wage and the National Minimum Wage when considering the pay of Executive Directors. Retail staff pay rates have increased twice in the past 12 months, with an average increase in pay of 6.1% applying for those aged over 25 and all chefs and all supervisory staff in April 2016. In October 2016 all other retail staff pay rates that did not increase in April were increased by an average of 4%.

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. In addition, each year an employee forum is held, which gives the opportunity for employees to ask questions of senior management, via elected representatives. This year the forum was hosted by the Chief Executive and attended by members of the Executive Committee. The Remuneration Chair will discuss with the Company the benefit of the Chair attending the forum on an annual basis to answer questions raised by employee representatives concerning Executive pay.

Consideration of shareholder views

This policy was set following consultation with major shareholders and investor groups in 2014.

During the year major shareholders and representative bodies were consulted in relation to PRSP targets for the 2016-18 performance period. The Committee welcomed the feedback received and took this into account before agreeing the performance targets.

Major shareholders and their representative bodies will continue to be consulted where material changes to the Executive Directors' remuneration policy are being considered.

Annual report on remuneration

This section details the remuneration of the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 24 September 2016. This report and the Chair's annual statement will be subject to a single advisory vote at the AGM on 24 January 2017.

Committee membership and operation

Committee members and their respective appointment dates are detailed in the table 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
Dave Coplin*	29 Feb 2016		

* Independent Non-Executive Directors.

Committee activity during the year

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

October 2015

- 2016 Bonus arrangements

November 2015

- Confirmation of 2013-15 PRSP Vesting
- 2016 Bonus targets
- Update on Directors' shareholdings
- Review of Directors' expenses
- Release of the second tranche of the 2013 deferred bonus award

March 2016

- 2016-18 PRSP, options for plan structure
- National Living Wage implementation
- 2016 Annual Bonus update

April 2016

- 2016-18 PRSP target setting and investor consultation

September 2016

- 2016 Bonus projection
- Employment conditions in the Group (employee engagement results and impact of NLW)
- Update on governance developments

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 £76,355[1]. 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. Clifford Chance LLP also provided advice in relation to pension schemes.

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

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. Phil Urban and Tim Jones were present at meetings where the Company's long- and short-term incentive arrangements and share schemes were discussed. However, each declared an interest in the matters under review.

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

Statement of voting at AGM

At the last AGM, the resolutions on the Annual Report on Remuneration received the following votes from shareholders:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Annual Report on Remuneration	351,084,874	349,870,201	99.65	1,214,673	0.35	2,683,462

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

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

Pay outcomes

The tables and related disclosures set out on pages 74 to 78 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Directors' remuneration

The tables set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on pages 74 and 75.

Executive Directors

	Basic salaries £000		Taxable benefits[a] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives[c] £000		Loss of office £000		Total remuneration £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Phil Urban[d]	**509**	–	**15**	–	**–**	–	**89**	–	**–**	–	**–**	–	**613**	–
Tim Jones[d]	**425**	424	**15**	17	**–**	–	**75**	75	**–**	104	**–**	–	**515**	620
Alistair Darby[e]	**–**	540	**–**	18	**–**	–	**–**	95	**–**	189	**542**	–	**542**	842
Sub-total Executive Directors	**934**	964	**30**	35	**–**	–	**164**	170	**–**	293	**542**	–	**1,670**	1,462

Non-Executive Directors

	Fees £000		Taxable benefits[f] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives £000		Loss of office £000		Total remuneration £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Bob Ivell	**284**	282	**6**	5	**–**	–	**–**	–	**–**	–	**–**	–	**290**	287
Ron Robson	**52**	51	**1**	4	**–**	–	**–**	–	**–**	–	**–**	–	**53**	55
Stewart Gilliland	**62**	58	**1**	2	**–**	–	**–**	–	**–**	–	**–**	–	**63**	60
Eddie Irwin	**52**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52**	51
Douglas McMahon[g]	**7**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**7**	51
Colin Rutherford	**62**	61	**1**	1	**–**	–	**–**	–	**–**	–	**–**	–	**63**	62
Imelda Walsh	**62**	61	**–**	1.5	**–**	–	**–**	–	**–**	–	**–**	–	**62**	62.5
Josh Levy[h]	**45**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	–
Dave Coplin[i]	**30**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**30**	–
Keith Browne[j]	**0**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**0**	–
Sub-total Non-Executive Directors	**656**	615	**9**	13.5	**–**	–	**–**	–	**–**	–	**–**	–	**665**	628.5
Total Executive Directors and Non-Executive Directors	**1,590**	1,579	**39**	48.5	**–**	–	**164**	170	**–**	293	**542**	–	**2,335**	2,090.5

a. Taxable benefits for the year comprised car allowance, healthcare, taxable expenses and the award of free shares under the all-employee SIP to Tim Jones as set out on page 77.
b. Based on the value of supplements paid in lieu of contributions to the Company Scheme.
c. The estimated 2013 PRSP values reported in last year's report have been updated to reflect the actual share price on the date of vesting (324.5p)
d. The base salary for Phil Urban is £510,000 and for Tim Jones £426,500. The figures set out are the actual salaries received over the financial year, which has 364 days.
e. Alistair Darby left the employment of the group on 26 September 2015. As disclosed in last year's report, his loss of office payment relates to 12 months' payment in lieu of notice which was paid monthly and a £2,000 contribution towards legal fees.
f. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses).
g. Douglas McMahon stepped down from the Board on 13 November 2015.
h. Josh Levy joined the Board on 13 November 2015.
i. Dave Coplin joined the Board on 29 February 2016.
j. Keith Browne joined the Board on 22 September 2016.

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in the policy section of this report. Details of the measures and targets applying to the 2016 plan are set out below:

Performance measures*	Threshold – 98% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)
Operating Profit (£) – 75%	£328m (0%)	£335m (30%)	£346m (75%)
Guest Service: (NPS average % score over the year) – 25%	65.5 (6.25%)	66 (12.5%)	67 (25%)

* Straight-line vesting between points

In determining the Operating Profit target range the Committee took into consideration a range of factors, such as the general economic and market outlook, future cost headwinds and internal plans. The threshold level of Operating Profit was set in line with the 2015 out-turn and target was set broadly in line with market consensus, with an award over target (30%) and towards maximum, requiring significant outperformance over and above the Company's business plan. In setting NPS targets the Committee reflected on the progress made in the prior year and considered what level of further improvement would be required.

The Group delivered Operating Profit of £318m and this fell short of the target set by the Committee. The Operating Profit outcome reflected disappointing trading in the first half of the year with sales declining by 1.6% in that period and by 0.7% over the whole year, following a stronger performance in the second half of the year. Operating Profit was also impacted by wage inflation, primarily driven by the introduction of the NLW in April 2016 and higher levels of investment resulting in an increase in business closures for development or refurbishment. The benefits of this investment should be felt in future years.

The primary measure of Guest Service was Net Promoter Score (NPS), which used a guest survey to measure satisfaction. At the time the Committee set the targets, the Company was reviewing both the survey provider and the method by which data was collected. Therefore, the Committee decided that additional guest metrics would be reviewed alongside the NPS score to ensure that any final assessment of guest service improvement was robust. The Guest Service measure was also subject to Operating Profit achieving a threshold level of performance. Under the old survey basis, the NPS score achieved was 67.1%, which would, potentially, have triggered the maximum pay-out under this element. However, as described above, the Committee would still have taken into account other metrics such as guest complaint resolution and data from TripAdvisor. In the view of the Committee this would have led to a probable reduction in the percentage due under this element. However, as the threshold level of Operating Profit had not been achieved, no award under this bonus element was made.

As a result no bonus awards have been made to Executive Directors in FY 2016.

Long-term incentives vesting during the year

During FY 2014 awards were made to Tim Jones and the former CEO, Alistair Darby, 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 24 September 2016.

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

2014-2016 PRSP – performance conditions	Target	Actual	% vesting
Total Shareholder Return relative to peer group*	Median – median x 1.35	Below median	Nil
Compound annual adjusted EPS growth	8%-16% CAGR	2.7%p.a.	Nil

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

As TSR performance fell below the median performance of the comparator group and EPS fell below the threshold level of performance required, the 2014 plan will lapse.

Update on forecast performance of other PRSP awards

2015-2017 PRSP
Based on current earnings forecasts and TSR performance to the end of FY 2016, the Committee does not anticipate that there will be any vesting at the end of the 2017 financial year.

2016-2018 PRSP
With two performance years remaining, the position could change but specifically in relation to the EPS measure, the significant additional cost challenges and a more detailed assessment of the timing and impact of investment, result in a forecast level of vesting below the threshold level.

Long-term incentive awards made in FY 2016

An award was made in accordance with the rules of the PRSP and as set out in the policy section of this report.

The independent elements of the performance measure for the award made in June 2016, each of which accounts for 50% of the award, are summarised below:

	Threshold vesting target*	Maximum vesting target
1. Compound annual adjusted Earnings Per Share ('EPS') growth (measured before separately disclosed items and other adjustments**).	25% will vest if the compound annual EPS growth is 4%.	100% will vest if compound annual EPS growth is at least 8%.
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.

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

** In last year's report, we stated that the Committee agreed to remove the impact of the net pensions finance charge from the EPS calculation. During the year, the Committee reconsidered this approach in light of investors' calls for greater transparency and the importance of managing the pension scheme deficit. The Committee has decided that, on balance, it will revert to using the reported Adjusted EPS figure for this award and those previously granted. The Committee does not believe that this change will make the EPS performance target more or less stretching than before. The change has been made to improve the transparency and reporting of long-term incentive plan outcomes.

*** Comprises the constituents of the FTSE All Share Travel & Leisure group as at the date of grant. The base point for the calculation of TSR is the first three months of the financial year from 27 September 2015 to 31 December 2015 to align with the appointment of Phil Urban as CEO.

Long-term incentive awards made in FY 2016 continued

The EPS and TSR conditions are measured over three years from the start of the financial year in which they are granted, i.e. the three financial years from 27 September 2015, ending in September 2018.

The granting of this award was delayed from November 2015 to enable the Committee to review the scheme design and targets in the context of the business review initiated by Phil Urban following his appointment.

Prior to making the award major shareholders and leading investors were consulted on the performance conditions, and specifically in relation to the revised EPS growth range. The Committee gave careful consideration to the feedback received during the consultation period.

The EPS target range has a threshold level of performance set at 4% growth p.a. and maximum set at 8% growth p.a. The Committee believed that this target range was demanding in the context of the earnings forecast at the time of the award, given the significant cost challenges the business faced. These included, but were not limited to, the introduction of the National Living Wage in April 2016.

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.

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

In normal circumstances the share price used to determine the number of options to be awarded is based on the share price on the business day prior to the award being made. This award was made on 29 June 2016, and therefore the prior business day was 28 June, which was the Tuesday following the UK referendum result, and saw a significant fall in share prices across the FTSE 250. The Committee considered the impact of this fall in share price in the context of the number of shares to be granted and concluded that it would not be appropriate to base the award on the 28 June share price of 235.4p. The Committee considered a number of options, including reducing the size of the award, and concluded that the most appropriate course of action was to base the award on the share price at the time the investor consultation ended in mid-June this being 267.7p. Therefore, executives did not directly benefit from the referendum-related fall in the share price.

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

	Options awarded during the year to 24/09/16	Basis of award (% of Basic Annual Salary)	Award date	Market price per share used to determine the award (p)*	Actual/ planned vesting date	Latest lapse date	Face value** £
Executive Directors							
Phil Urban	381,022	200	29/06/16	267.7	Nov 18	Nov 20	912,548
Tim Jones	223,048	140	29/06/16	267.7	Nov 18	Nov 20	534,200
Total	**604,070**						**1,446,748**

* The share price on the actual grant date was 239.5p, which was impacted by the result of the UK referendum. The Committee decided that the number of shares awarded should be made by reference to a higher price of 267.7p, being the share price at the time the consultation with investors concluded. A higher price has resulted in fewer awards being granted to executives.

** Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (239.5p).

The aggregate option price of each award is £1.

All-employee SIP and Sharesave

The table below shows the award made to a Director under the free share element of the SIP award made during the year. No awards were made to Directors under the Sharesave plan during 2016.

SIP

	Shares awarded during the year 27/09/15 to 24/09/16	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period
Director						
Tim Jones	1,162	22/06/16	281.9	22/06/19	–	–
Total	**1,162**	**–**	**–**	**–**	**–**	**–**

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 78.

PRSP, STDIP and other share awards

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

Name of Director[c]	Scheme	Number of shares at 27 September 2015	Granted during the period	Date of grant	Lapsed during the period	Exercised during the period	Number of shares at 24 September 2016	Date from which exercisable	Expiry date
Phil Urban	PRSP 2015-17[a]	61,738[b]		Jan 2015			61,738	Nov 2017	Nov 2019
	PRSP 2016-17[a]		381,022	Jun 2016			381,022	Nov 2018	Nov 2020
	SAYE 2015	4,972					4,972	Oct 2018	Mar 2019
	Total	**66,710**	**381,022**				**447,732**		
Tim Jones	PRSP 2013-15[a]	169,846	–	Feb 2013	137,661	32,185	–	–	–
	PRSP 2014-16[a]	144,162	–	Nov 2013	–	–	144,162	Nov 2016	Nov 2018
	PRSP 2015-17[a]	161,856	–	Nov 2014	–	–	161,856	Nov 2017	Nov 2019
	PRSP 2016-18[a]	–	223,048	Jun 2016	–	–	223,048	Nov 2018	Nov 2020
	SAYE 2012	4,945	–	Jun 2012	–	4,945	–	–	–
	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	**486,038**	**223,048**		**137,661**	**37,130**	**534,295**		

a. 50% of the PRSP award is subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets. During the year, the Committee decided that the reported Adjusted EPS should be used (i.e. after the deduction of IAS 19 and related changes in reporting). As reported on page 75, it is anticipated that there is unlikely to be any EPS vesting, notwithstanding the Committee's change in treatment of IAS 19 charges.
b. Shares awarded to Phil Urban on joining the Company as Chief Operating Officer in January 2015.
c. Alistair Darby left the Board and employment on 26 September 2015. As reported in last year's report the PRSP awards he held will be pro-rated for service and will vest subject to performance. His 2014-2016 award lapsed and he retains an interest in the 2015-2017 PRSP cycle.

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, Phil Urban's shareholding was 15.5% of his basic annual salary and Tim Jones's shareholding was 45.2% 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 this requirement over time.

The interests of the Directors in the ordinary shares of the Company as at 24 September 2016 and at 26 September 2015 were as set out below:

	Wholly owned shares without performance conditions[a]		Shares with performance conditions		Unvested options/ awards without performance conditions[b]		Unvested options/ awards with performance conditions[c]		Vested but unexercised options		Total shares/options	
	24/09/2016	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015
Executive Directors												
Phil Urban	**31,306**	–	**–**	–	**4,972**	–	**442,760**	–	**–**	–	**479,038**	–
Tim Jones	**76,518**	43,428	**–**	–	**5,229**	27,820	**529,066**	475,864	**–**	–	**610,813**	547,112
Non-Executive Directors												
Bob Ivell	**12,006**	12,006	**–**	–	**–**	–	**–**	–	**–**	–	**12,006**	12,006
Ron Robson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Stewart Gilliland	**11,000**	11,000	**–**	–	**–**	–	**–**	–	**–**	–	**11,000**	11,000
Eddie Irwin	**30,000**	30,000	**–**	–	**–**	–	**–**	–	**–**	–	**30,000**	30,000
Douglas McMahon[d]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Colin Rutherford	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Imelda Walsh	**7,500**	7,500	**–**	–	**–**	–	**–**	–	**–**	–	**7,500**	7,500
Dave Coplin	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Josh Levy	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Keith Browne	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**168,330**	103,934	**–**	–	**10,201**	27,820	**971,826**	475,864	**–**	–	**1,150,357**	607,618

a. Includes Free Shares and Partnership Shares granted under the SIP.
b. Options granted under the Sharesave as detailed in the table on page 77 and deferred bonus awards granted under the STDIP.
c. Options granted under the PRSP as detailed in the table on page 76.
d. As at 13 November 2015, the date on which Mr McMahon stepped down from the Board.

32,185 share options were exercised by Tim Jones during the year, of these 15,181 were sold to settle tax due on the 2013-15 PRSP which vested in November 2015.

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 148 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial year and 21 November 2016.

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

The market price per share on 24 September 2016 was 270.4p and the range during the year to 24 September 2016 was 217.5p to 364.4p per share.

The Executive Directors as a group beneficially own 0.04% of the Company's shares.

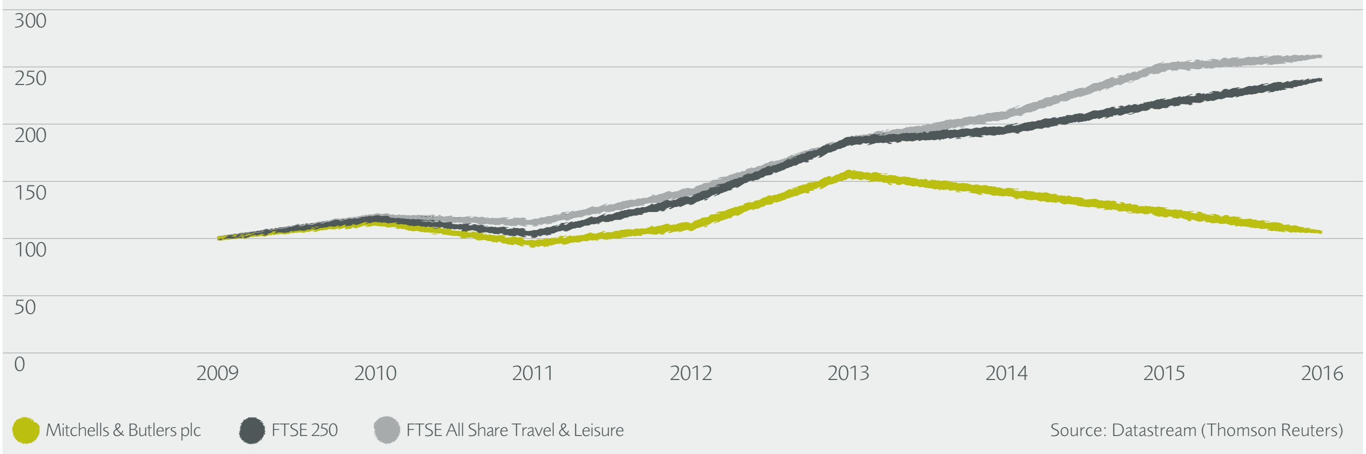
Payment for loss of office

Alistair Darby stepped down as Chief Executive and resigned from the Company on 26 September 2015. His payments for loss of office were fully disclosed in last year's report and the payment in lieu of notice is disclosed in the single figure of total remuneration table.

TSR performance graph

The Company's TSR performance for the last seven financial years is shown below against the FTSE 250 index and the FTSE All Share Travel and Leisure index. The FTSE 250 index has been chosen to show TSR performance as the Company is a member of the FTSE 250. The FTSE All Share Travel and Leisure index is shown as this is the TSR comparator group in the long-term incentive plan.

Total shareholder return from September 2009 to September 2016 (re-based to 100)



CEO earnings history

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

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

Change in remuneration of the CEO

	Salary (£)			Taxable benefits (£)			Bonus (£)		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
CEO	**508,603**	539,925	(5.8)	**15,098**	14,810	1.9	**–**	–	–
Salaried employees	**31,763**	31,380	1.2	**725**	759	(4.5)	**2,525**	1,671	51.1

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.

Salaried employees with part-year service in either FY 2015 or FY 2016 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, largely part time and do not participate in any bonus plans. The CEO figures do not include LTIP awards or pension benefits that are disclosed in the single figure table.

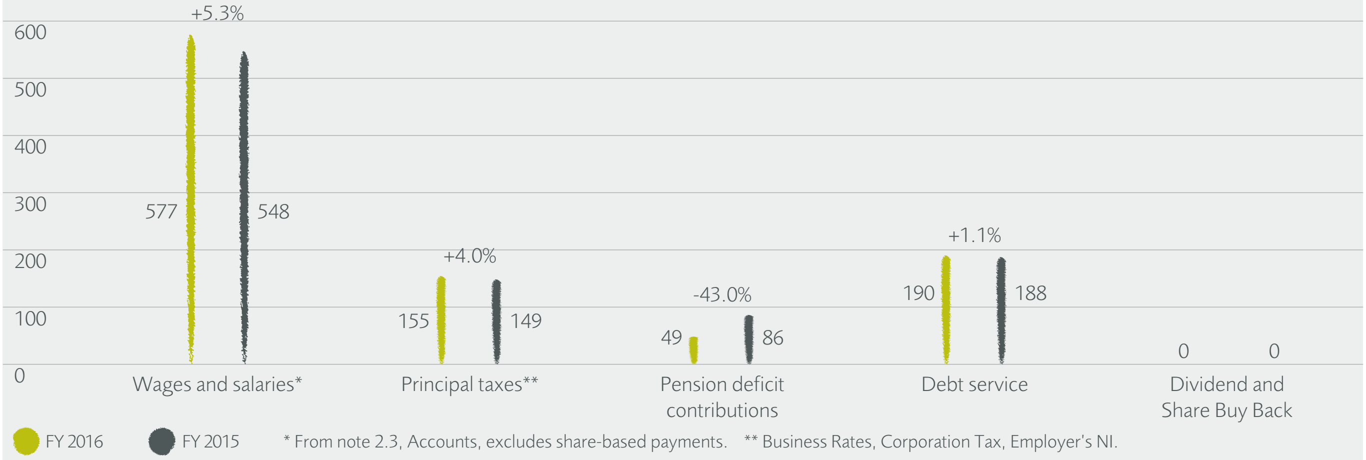
CEO pay ratios

In line with emerging best practice the Committee has decided to include the pay ratio between the CEO, and the median pay of other employees. Based on the CEO single figure set out on page 74 the ratio of pay to the median of all other employees is 1:44. Employee pay includes base salary, incentive payments, employer's pension contributions and benefits. Employees with part-year service have been excluded from the comparison figures.

In assessing our pay ratio versus likely ratios from industry peers, we believe that we are towards the lower end of the range but note that annual and long-term incentive payments have varied considerably amongst this group. In our example, the CEO single figure comprises fixed pay only given that no bonus was awarded and no long-term incentive was capable of vesting in respect of performance in FY 2016. We also recognise that ratios will be influenced by levels of employee pay and in the hospitality sector, despite significant increases over the past year, employee pay will be lower than in other sectors of the economy.

We have provided this additional disclosure but look forward to greater debate and clarification over the method of calculation and how this additional information will inform discussion on executive remuneration.

Relative importance of spend on pay £m



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

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2016, £2.1m (0.36%) was paid to Executive and Non-Executive Directors (2015 £1.58m (0.29%).

The increase in wages and salaries is primarily a result of NMW and NLW. In FY 2015 the Company made an additional one-off pension deficit contribution in accordance with the agreement made with the Trustee.

Implementation of Remuneration Policy in FY 2017

Executive Directors' salary review

No salary increase will apply for any Executive Director. Phil Urban's salary will remain at £510,000 and Tim Jones' at £426,500. Salaries will next be reviewed as part of the upcoming Remuneration Policy review.

Annual performance bonus

The Committee has reviewed the performance measures and the bonus for 2017 will continue to be based 75% on Financial Performance and 25% on Guest Service.

Operating Profit

- The threshold at which a bonus will begin to accrue will be set at 95% of target, slightly lower than in 2016, reflecting the demanding nature of the target set by the Committee. Maximum payment for the Operating Profit element will be for achievement of 105% of target, increased from 103% in 2016. The amounts payable at threshold, target and maximum remain unchanged from 2016.
- The Committee felt that a slightly wider performance range was appropriate given the ongoing economic uncertainty and continuing cost pressures, including the additional costs associated with the accelerated investment in our estate, which increases the number of closure weeks due to site redevelopment. Whilst these closures have a short-term impact, in the medium term good returns are anticipated. There is also an expectation that operational and tactical activity aligned to the strategic objectives will begin to impact positively on sales, and there may be some benefits as we see higher wages from the introduction of the NLW flowing through to the wider economy.
- In setting the range from threshold to maximum, the Committee took into consideration the Company's latest business plan and market consensus.

Guest Service

- NPS will continue to be the lead measure of Guest Service. The targets are now based on the new survey, which the Committee believes has a more robust method of collecting data and therefore result validity. Guests are being invited to provide feedback in different ways, either directly by a member of the team or by email or text invitation following their visit. Again, the Guest Service element will only be payable if the threshold level of financial performance is achieved. For 2017 this will be set at 95% of target in line with the threshold level set for Operating Profit.
- The Committee has also agreed that prior to any bonus being approved in relation to Guest Service, progress against other guest metrics will be considered, such as TripAdvisor reviews and the speed at which guest complaints are addressed. This rounded assessment will ensure that guest service improvements are assessed comprehensively and not solely based on a single metric.

More broadly, the Committee is committed to ensuring that any bonus or incentive payment is consistent and representative of the overall performance of the Company.

Operating Profit 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

- A PRSP award is due to be made in respect of the 2017 to 2019 performance period. The Committee has reviewed the performance condition and targets and concluded that the performance measures should remain unchanged from the June 2016 award, with two equal elements, growth in adjusted EPS and relative TSR. The Committee has also concluded that the EPS target range should remain unchanged, with the threshold set at 4% growth p.a. and maximum vesting at 8% growth p.a.
- In setting the EPS target range the Committee has considered the impact on earnings resulting from the ongoing work to reposition the estate, and the ongoing impact of the NLW. In addition, the past six months has seen further cost headwinds emerge, for example the impact of weaker sterling on input costs, the Apprenticeship Levy and increases to utility, rent and business rates. In light of this, the Committee believes the EPS range remains very challenging in the circumstances.

The table below summarises the performance condition for FY 2017-2019:

Performance measures (each accounting for 50% of the award)	Threshold vesting target*	Maximum vesting target
1. Compound annual adjusted Earnings Per Share ('EPS') growth (measured before separately disclosed items and other adjustments).	25% will vest if the compound annual EPS growth is 4% per annum.	100% will vest if compound annual EPS growth is at least 8% per annum.
2. Total Shareholder Return (TSR) relative to a peer group of comparator companies comprising the FTSE All Share Travel & Leisure group.	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.

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

The TSR element of the award is also subject to a share price underpin and 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.

As disclosed in last year's report, from 2014 the Committee agreed to remove the impact of the net pensions finance charge from base and end-year EPS as some of the factors that impact on the calculation of the charge, such as the bond-market derived discount rate, are outside the control of management. A further review of practice has been completed and acknowledging that the use of reported figures provides greater transparency and the ongoing importance of managing the pension deficit, the Committee has decided that it will revert to using the reported Adjusted EPS for all current and future awards. As disclosed earlier, this technical change is unlikely to change the vesting outcome of awards which have been granted.

The Committee will continue to undertake a rigorous examination of the quality of the performance achieved and identify any factors that are unusual or may have a material influence on the outcome of an award but did not represent underlying performance, including the impact of the net pensions finance charge.

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
21 November 2016

Financial statements

In this section

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 24 September 2016 and of the Group'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 Practice, including FRS 101 'Reduced Disclosure Framework'; and
- 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:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group cash flow statement;
- the Group and Company statements of changes in equity;
- the related sections 1 to 5 of the Group financial statements; and
- the related notes 1 to 12 of 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), including FRS 101 'Reduced Disclosure Framework'.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Valuation of the pub estate; and • Onerous lease provisions. Our 2015 report included three other risks which are not included in our report this year.
Materiality	The materiality that we used in the current year is £8.7m which is approximately 5% of profit before tax before separately disclosed items.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with 2015.
Significant changes in our approach	Periodic rotation takes place of the audit engagement partner and John Charlton has replaced the previous audit engagement partner for the 52 week period ending 24 September 2016. In 2016, in addition to the changes in risks discussed above, we have adopted an audit approach which seeks to place greater reliance on the operating effectiveness of the control environment than in prior years. This includes testing the operating effectiveness of controls relating to revenue and food and drink expenditure.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within section 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic report on page 24.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 20 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 20 to 24 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 24 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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 confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

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 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.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below 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	How the scope of our audit responded to the risk	Key observations
Valuation of the pub estate (risk the same as prior year)		
As set out in section 3.1 the value of the pub estate is £4,423m (2015 £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 and the range of acceptable judgements. The total net book value of revalued properties as at 24 September 2016, which does not include freehold properties excluded from the revaluation as a result of investment plans, is £3,759m (2015 £3,842m). The revaluation exercise performed in the year has resulted in a net increase in book value of £136m (2015 decrease of £29m), which includes an impairment charge of £80m (2015 £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. 20% of the freehold and long leasehold estate has been inspected by the Group's external valuers, with the result of the inspection forming the basis for an extrapolation across the remainder of the estate. 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, for example if a site is loss making, a spot valuation is applied. **Short leasehold** The accounting policy adopted and judgements used are described in section 3.1 to the financial statements. The total value of short leasehold properties as at 24 September 2016 is £174m (2015 £182m). 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 £8m (2015 £11m) in the year.	We worked with our property valuation specialists and management's external advisors to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub estate valuation. This included: • discussing and challenging the appropriateness of the valuation methodology adopted with management's external advisors; • benchmarking valuations to transaction activity in the licensed retail property market, in order to confirm whether the multiples being proposed were appropriate; • confirming that the sites inspected by the Group's valuer were representative of the pub estate as a whole, in terms of brand and geography, to determine that the application of the multiple derived from the valuation of the inspected properties to the rest of the pub estate was appropriate; • confirming that the fair maintainable trading levels used in the revaluation exercise were consistent with the Group's policy and challenging the use of historical trading results rather than forecasts in the determination of fair maintainable trade; • reviewing the future projected income used in valuations where the valuation is not based on historical trading data, for example, on converted or remodelled properties; and • obtaining evidence to support the valuation of a sample of properties to which a spot valuation has been applied, for example, through comparison to sales proceeds achieved for similar recent sales transactions. Additionally we: • assessed the design and implementation of controls in relation to the revaluation; • tested the integrity of the data used in the valuations by agreeing a sample to source data; • used analytical tools to test the integrity of the revaluation model; and • assessed the competence, independence and integrity of management's external advisors. We challenged the assumptions used by management within the short leasehold impairment review. This included: • obtaining evidence to support management's assertion that properties can be successfully turned around where properties have not been impaired due to management's expectation that the performance of the properties will improve. This included assessing the financial impact of the implementation of management's Board approved plans relating to certain brands, and a site by site review of other properties; • 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. Additionally, we assessed the design and implementation of controls in relation to the short leasehold impairment review.	We are in agreement with the methodology chosen to revalue the pub estate and conclude there appears to be no bias in the valuation. We concur that the valuations are suitable for inclusion in the financial statements.

Risk	How the scope of our audit responded to the risk	Key observations
Onerous lease provisions (new risk)		
As set out in section 3.3, property provisions are £9m (2015 £10m) of which £8.8m (2015 £8.7m) relates to onerous lease provisions. The accounting policy for provisions is set out in section 3.3. Loss-making short leasehold properties are reviewed by management to determine whether an onerous lease provision is required; the key risk is completeness of the onerous lease provision both in terms of the properties where a provision has not been recognised and where there is a provision, the level of the provision for each property. Judgements in relation to expected trading levels, turnaround period for underperforming sites and discount rates are applied when assessing the level of onerous lease provision required.	• Where onerous lease provisions have not been recognised, despite historical results indicating that a provision may be required, we obtained evidence to support management's assertion that properties can be successfully turned around. This included assessing the financial impact of the implementation of management's Board approved plans; • We tested a sample of loss-making short leasehold and unlicensed properties to create an expectation of the appropriate level of onerous lease provision for each property within our sample and compared our overall expectation with the level of onerous lease provision. This included obtaining evidence that lease premiums could be obtained for properties in good locations based on lease premiums obtained for similar properties or offers already received; • We tested the integrity of the information used within the onerous lease provision calculation by agreeing inputs back to source data including historical results and lease terms; • We recalculated the historical turnaround period for properties which have previously been provided for to assess management's assumption for the turnaround period for underperforming sites; and • We assessed the appropriateness of the discount rate through recalculation and performing sensitivity analysis. Additionally we assessed the design and implementation of controls in relation to the calculation of the onerous lease provision.	We agree that the level of onerous lease provision is appropriate.

Last year our report included three other risks which are not included in our report this year for the following reasons:

- Orchid acquisition accounting: because the acquisition accounting was finalised in the year ended 26 September 2015;
- Tax provisions and the recognition of tax losses: because there are no significant open tax judgements that have not received clearance from HMRC; and
- Accounting for defined benefit schemes: as the requirement to recognise a liability due to the minimum funding requirement mitigates the impact of the key assumptions on the total liability recognised in the financial statements.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 56.

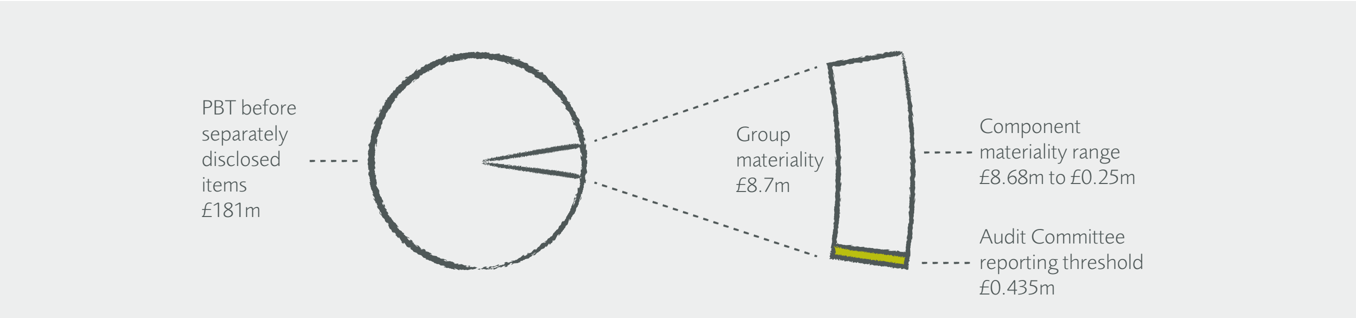
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£8.7m (2015 £9.4m)
Basis for determining materiality	Approximately 5% (2015 5%) of profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and short leasehold impairment (2015 same basis).
Rationale for the benchmark applied	Profit before tax before separately disclosed items is a key measure used by the Group in reporting its results to allow a better understanding of the underlying trading of the Group and is also a key measure considered by analysts.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £435,000 (2015 £180,000) as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We have increased the threshold for reporting audit differences from 2% to 5% in recognition of the historically low level of misstatements that have been reported to the Audit Committee and also due to the majority of the Group being audited by the same team in Deloitte UK, such that we have enhanced visibility over the misstatements that are arising during the course of our audit.

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 the UK property business together accounting for 99% (2015 100%) of the Group's total assets, 97% (2015 97%) of revenue and 98% (2015 98%) of operating profit. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2015.

In responding to the assessed risks of material misstatement, the Group sought to place greater reliance on the operating effectiveness of the Group's controls in relation to revenue and food and drink expenditure.

Our audit work of the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.25m to £8.68m (2015 £0.4m to £7.5m).

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Report of 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 part of the corporate governance statement relating to the Company's compliance with certain 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.

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

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.

John Charlton FCA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 November 2016

Group income statement

For the 52 weeks ended 24 September 2016

	Notes	2016 52 weeks Before separately disclosed items £m	2016 52 weeks Separately disclosed items[a] £m	2016 52 weeks Total £m	2015 52 weeks Before separately disclosed items £m	2015 52 weeks Separately disclosed items[a] £m	2015 52 weeks Total £m
Revenue	2.1	**2,086**	**–**	**2,086**	2,101	–	2,101
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(1,655)**	**–**	**(1,655)**	(1,662)	–	(1,662)
Net profit arising on property disposals	2.2, 2.3	**–**	**1**	**1**	–	7	7
EBITDA[b]		**431**	**1**	**432**	439	7	446
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(113)**	**(88)**	**(201)**	(111)	(65)	(176)
Operating profit/(loss)	2.1	**318**	**(87)**	**231**	328	(58)	270
Finance costs	4.3	**(126)**	**–**	**(126)**	(130)	–	(130)
Finance revenue	4.3	**1**	**–**	**1**	1	–	1
Net pensions finance charge	4.3, 4.5	**(12)**	**–**	**(12)**	(15)	–	(15)
Profit/(loss) before tax		**181**	**(87)**	**94**	184	(58)	126
Tax (expense)/credit	2.2, 2.4	**(37)**	**32**	**(5)**	(37)	14	(23)
Profit/(loss) for the period		**144**	**(55)**	**89**	147	(44)	103
Earnings per ordinary share							
– Basic	2.5	**34.9p**		**21.6p**	35.7p		25.0p
– Diluted	2.5	**34.8p**		**21.5p**	35.5p		24.9p

a. Separately disclosed 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.

The notes on pages 95 to 129 form an integral part of these financial statements.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 24 September 2016

	Notes	2016 52 weeks £m	2015 52 weeks £m
Profit for the period		**89**	103
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain on revaluation of the property portfolio	3.1	**216**	25
Remeasurement of pension liability	4.5	**(22)**	6
Tax relating to items not reclassified	2.4	**(21)**	(9)
		173	22
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**3**	(1)
Cash flow hedges:			
– Losses arising during the period	4.4	**(116)**	(86)
– Reclassification adjustments for items included in profit or loss	4.4	**8**	31
Tax relating to items that may be reclassified	2.4	**10**	11
		(95)	(45)
Other comprehensive income/(loss) after tax		**78**	(23)
Total comprehensive income for the period		**167**	80

The notes on pages 95 to 129 form an integral part of these financial statements.

Group balance sheet

24 September 2016

	Notes	2016 £m	2015 £m
Assets			
Goodwill and other intangible assets	3.4	**9**	10
Property, plant and equipment	3.1	**4,423**	4,242
Lease premiums		**2**	2
Deferred tax asset	2.4	**143**	156
Derivative financial instruments	4.4	**52**	19
Total non-current assets		**4,629**	4,429
Inventories	3.2	**25**	24
Trade and other receivables	3.2	**32**	46
Other cash deposits	4.1	**120**	120
Cash and cash equivalents	4.1	**158**	163
Derivative financial instruments	4.4	**1**	–
Total current assets		**336**	353
Total assets		**4,965**	4,782
Liabilities			
Pension liabilities	4.5	**(46)**	(46)
Trade and other payables	3.2	**(293)**	(317)
Current tax liabilities		**(12)**	(15)
Borrowings	4.2	**(253)**	(214)
Derivative financial instruments	4.4	**(44)**	(43)
Total current liabilities		**(648)**	(635)
Pension liabilities	4.5	**(291)**	(304)
Borrowings	4.2	**(1,920)**	(1,960)
Derivative financial instruments	4.4	**(360)**	(253)
Deferred tax liabilities	2.4	**(329)**	(349)
Provisions	3.3	**(9)**	(10)
Total non-current liabilities		**(2,909)**	(2,876)
Total liabilities		**(3,557)**	(3,511)
Net assets		**1,408**	1,271
Equity			
Called up share capital	4.7	**35**	35
Share premium account	4.7	**27**	26
Capital redemption reserve	4.7	**3**	3
Revaluation reserve	4.7	**1,142**	938
Own shares held	4.7	**(1)**	(1)
Hedging reserve	4.7	**(338)**	(240)
Translation reserve	4.7	**13**	10
Retained earnings		**527**	500
Total equity		**1,408**	1,271

The notes on pages 95 to 129 form an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 21 November 2016.

They were signed on its behalf by:

Tim Jones
Finance Director

Group statement of changes in equity

For the 52 weeks ended 24 September 2016

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 27 September 2014	35	24	3	918	(4)	(196)	11	394	1,185
Profit for the period	–	–	–	–	–	–	–	103	103
Other comprehensive income/(expense)	–	–	–	20	–	(44)	(1)	2	(23)
Total comprehensive income/(expense)	–	–	–	20	–	(44)	(1)	105	80
Share capital issued	–	2	–	–	–	–	–	–	2
Release of own shares	–	–	–	–	3	–	–	(1)	2
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
At 26 September 2015	35	26	3	938	(1)	(240)	10	500	1,271
Profit for the period	–	–	–	–	–	–	–	89	89
Other comprehensive income/(expense)	–	–	–	204	–	(98)	3	(31)	78
Total comprehensive income/(expense)	–	–	–	204	–	(98)	3	58	167
Share capital issued	–	1	–	–	–	–	–	–	1
Purchase of own shares	–	–	–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Dividends paid	–	–	–	–	–	–	–	(31)	(31)
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	(1)	(1)
At 24 September 2016	**35**	**27**	**3**	**1,142**	**(1)**	**(338)**	**13**	**527**	**1,408**

Group cash flow statement

For the 52 weeks ended 24 September 2016

	Notes	2016 52 weeks £m	2015 52 weeks £m
Cash flow from operations			
Operating profit		**231**	270
Add back: adjusted items	2.2	**87**	58
Operating profit before adjusted items		**318**	328
Add back:			
Depreciation of property, plant and equipment	2.3	**111**	109
Amortisation of intangibles	2.3	**2**	2
Cost charged in respect of share-based payments	4.6	**2**	2
Administrative pension costs	4.5	**2**	2
Operating cash flow before adjusted items, movements in working capital and additional pension contributions		**435**	443
(Increase)/decrease in inventories		**(1)**	3
(Increase)/decrease in trade and other receivables		**(4)**	22
(Decrease)/increase in trade and other payables		**(5)**	21
Decrease in provisions		**(1)**	(2)
Additional pension contributions	4.5	**(49)**	(86)
Cash flow from operations before adjusted items		**375**	401
Cash flow from adjusted items		**–**	(6)
Interest paid		**(126)**	(129)
Interest received		**1**	2
Tax paid		**(28)**	(25)
Net cash from operating activities		**222**	243
Investing activities			
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited		**–**	(1)
Purchases of property, plant and equipment		**(166)**	(157)
Purchases of intangible assets		**(1)**	(3)
Payment of lease premium		**–**	(2)
Proceeds from sale of property, plant and equipment		**5**	6
Transfers to other cash deposits		**–**	(120)
Net cash used in investing activities		**(162)**	(277)
Financing activities			
Issue of ordinary share capital		**1**	2
Purchase of own shares		**(1)**	–
Proceeds on release of own shares		**–**	1
Dividends paid		**(31)**	–
Repayment of principal in respect of securitised debt	4.2	**(67)**	(61)
Net movement on unsecured revolving credit facilities	4.2	**31**	–
Net cash used in financing activities		**(67)**	(58)
Net decrease in cash and cash equivalents		**(7)**	(92)
Cash and cash equivalents at the beginning of the period		**163**	255
Foreign exchange movements on cash		**2**	–
Cash and cash equivalents at the end of the period	4.1	**158**	163

The notes on pages 95 to 129 form an integral part of these financial statements.

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 24 September 2016 and 26 September 2015 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. 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.

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 35. 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 = €1.28 (2015 £1 = €1.37), 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 = €1.16 (2015 £1 = €1.36) and £1 = $1.30 (2015 £1 = $1.52) respectively.

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
IAS 19 (amendments) Defined Benefit Plans: Employee Contributions	The Group has adopted the amendments to IAS 19 Defined Benefit Plans: Employee Contributions for the first time in the current period. The amendments to IAS 19 clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments require the Group to account for employee contributions as follows: • Discretionary employee contributions are accounted for as reduction of the service cost upon payments to the plans. • Employee contributions specified in the defined benefit plans are accounted for as reduction of the service cost, only if such contributions are linked to services. Specifically, when the amount of such contribution depends on the number of years of service, the reduction to service cost is made by attributing the contributions to periods of service in the same manner as the benefit attribution. On the other hand, when such contributions are determined based on a fixed percentage of salary (i.e. independent of the number of years of service), the Group recognises the reduction in the service cost in the period in which the related services are rendered.	The application of these amendments has had no impact on the Group's financial statements, as the defined benefit pension scheme is closed to future accrual and hence there is no current service cost recognised.
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 Group has adopted the amendments to IFRSs including the Annual Improvements to IFRSs 2010 to 2012 Cycle for the first time in the current period. The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements. However, the amendments to IFRS 8 Operating Segments – Aggregation of operating segments and IAS 24 Related Party Disclosures – Key management personnel represent changes to existing requirements.	The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics. Further details of the Group's operating segments and aggregation criteria is provided in note 2.1. The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. The application of this amendment has had no impact on the amounts disclosed in the Group's financial statements.
Annual Improvements to IFRSs 2011 to 2013 Cycle	The Group has adopted the amendments for the first time in the current period. The amendments are in the nature of clarification rather than substantive changes to existing requirements.	The application of the amendments has had no material impact on the disclosures or 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
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
IAS 1 (amendments) Disclosure Initiative	1 January 2016
IFRS 10, IFRS 12 and IAS 28 (amendments) Investment entities: Applying the Consolidation Exemption	1 January 2016
Annual Improvements to IFRSs 2012 to 2014 Cycle	The Annual Improvements to IFRSs 2012 to 2014 have made a number of amendments to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures and IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting. The amendments have an effective date of 1 January 2016
IAS 7 (amendments) Disclosure Initiative	1 January 2017 (subject to EU endorsement)
IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017 (subject to EU endorsement)
IFRS 15 Revenue from Contracts with Customers	1 January 2018 (subject to EU endorsement)
IFRS 9 Financial Instruments	1 January 2018
IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions	1 January 2018 (subject to EU endorsement)

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.

Accounting standard	Effective date
IFRS 16 Leases	1 January 2019 (subject to EU endorsement) The standard replaces IAS 17 Leases and requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset is of low value.

The above standard reflects a significant change in the accounting and reporting of leases for lessees as it provides a single lessee accounting model, and as such, requires lessees to recognise assets and liabilities for all leases unless the underlying asset has a low value or the lease term is 12 months or less. Accounting requirements for lessors is substantially unchanged from IAS 17. The impact of the standard on the Group is currently being assessed and it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements.

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 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 4.5 Pensions

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 adjusted items (operating profit pre-adjustments) 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. At a macro level, rent is set on a market-based measure with this being reviewed on a five yearly basis. At a micro level, the property business charges rent to the retail operating business based on the performance of the individual outlets. The internal rent charge is eliminated at the total Group level.

Segmental information

	Retail operating business		Property business		Total	
	2016 52 weeks £m	2015 52 weeks £m	**2016 52 weeks £m**	2015 52 weeks £m	**2016 52 weeks £m**	2015 52 weeks £m
Revenue	**2,086**[a]	2,101[a]	**–**	–	**2,086**	2,101
EBITDA pre-adjustments	**218**	219	**214**[b]	220[b]	**431**	439
Operating profit pre-adjustments	**117**	121	**201**	207	**318**	328
Separately disclosed items (note 2.2)					**(87)**	(58)
Operating profit					**231**	270
Net finance costs					**(137)**	(144)
Profit before tax					**94**	126
Tax expense					**(5)**	(23)
Profit for the period					**89**	103

a. Revenue includes other income of £6m (2015 £6m) in respect of leased operations and £nil (2015 £6m) in respect of sales of development properties.
b. The EBITDA pre-adjustments 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	
	2016 52 weeks £m	2015 52 weeks £m	**2016 52 weeks £m**	2015 52 weeks £m	**2016 52 weeks £m**	2015 52 weeks £m
Revenue – sales to third parties	**2,018**	2,040	**68**	61	**2,086**	2,101
Segment non-current assets[a]	**4,423**	4,245	**11**	9	**4,434**	4,254

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

2.2 Separately disclosed 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 separately disclosed 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.

Separately disclosed 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, restructuring costs and effects of corporation tax rate change.

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:

	Notes	**2016 52 weeks £m**	2015 52 weeks £m
Adjusted items			
Net profit arising on property disposals	a	**1**	7
Movement in the valuation of the property portfolio (see note 3.1):			
– Impairment arising from the revaluation		**(80)**	(54)
– Other impairment	b	**(8)**	(11)
Net movement in the valuation of the property portfolio		**(88)**	(65)
Total adjusted items before tax		**(87)**	(58)
Tax credit relating to above items		**18**	14
Tax credit in respect of change in tax legislation (note 2.4)	c	**14**	–
Total adjusted items after tax		**(55)**	(44)

a. The 2015 profit includes the release of a £5m accrual for costs in relation to the disposal of properties in prior periods.
b. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount. See note 3.1 for further details.
c. The Finance (No.2) Act 2015 was enacted on 18 November 2015 and reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balance at 24 September 2016.

2.3 Operating costs

Accounting policies

Operating profit
Operating profit is stated after charging adjusted 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 – Group as lessee
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.

Operating leases – Group as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

2.3 Operating costs continued

Operating costs are analysed as follows:

	2016 52 weeks £m	2015 52 weeks £m
Raw materials and consumables recognised as an expense	**552**	569
Changes in inventory of finished goods and work in progress	**(1)**	3
Employee costs	**626**	595
Hire of plant and machinery	**22**	24
Property operating lease costs	**58**	54
Other costs	**398**	417
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	**1,655**	1,662
Depreciation of property, plant and equipment (note 3.1)	**111**	109
Amortisation of intangible assets (note 3.4)	**2**	2
Net movement in the valuation of the property portfolio (note 2.2)	**88**	65
Depreciation, amortisation and movements in the valuation of the property portfolio	**201**	176
Net profit arising on property disposals	**(1)**	(7)
Total operating costs	**1,855**	1,831

Employee costs

	2016 52 weeks £m	2015 52 weeks £m
Wages and salaries	**577**	548
Share-based payments (note 4.6)	**2**	2
Total wages and salaries	**579**	550
Social security costs	**40**	38
Pensions (note 4.5)	**7**	7
Total employee costs	**626**	595

The average number of employees including part-time employees was 43,495 retail employees (2015 43,492) and 968 support employees (2015 1,000).

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 58 to 81.

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:

	2016 £m	2015 £m
Due within one year	**52**	48
Between one and five years	**194**	179
After five years	**448**	448
	694	675

Operating lease receivables – Group as lessor

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

	2016 £m	2015 £m
Due within one year	**8**	8
Between one and five years	**26**	24
After five years	**45**	47
	79	79

Lease income recognised in the year was as follows:

	2016 52 weeks £m	2015 52 weeks £m
Standard lease income	**10**	9

Auditor remuneration

	2016 52 weeks £m	2015 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
Total non-audit fees	**0.1**	0.2

Auditor's remuneration of £0.3m (2015 £0.3m) was paid in the UK and £0.1m (2015 £0.1m) was paid in Germany.

2.4 Taxation

Accounting policies

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 that are charged or credited in other comprehensive income or directly in equity, in which case the income tax is also charged or credited in other comprehensive income or directly in 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.

2.4 Taxation continued

Taxation – income statement

	2016 52 weeks £m	2015 52 weeks £m
Current tax:		
– UK corporation tax	**(28)**	(21)
– Amounts over provided in prior periods	**3**	3
Total current tax charge	**(25)**	(18)
Deferred tax:		
– Origination and reversal of temporary differences	**9**	(6)
– Adjustments in respect of prior periods – overseas tax losses	**–**	4
– Adjustments in respect of prior periods – other	**(3)**	(3)
– Change in tax rate	**14**	–
Total deferred tax credit/(charge)	**20**	(5)
Total tax charged in the income statement	**(5)**	(23)
Further analysed as tax relating to:		
Profit before adjusted items	**(37)**	(37)
Adjusted items	**32**	14
	(5)	(23)

The tax charge in the income statement for the period is lower (2015 lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2016 52 weeks £m	2015 52 weeks £m
Profit before tax	**94**	126
Taxation charge at the UK standard rate of corporation tax of 20.0% (2015 20.5%)	**(19)**	(26)
Expenses not deductible	**(2)**	(2)
Income not taxable	**2**	2
Adjustments in respect of prior periods	**–**	4
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	(1)
Tax credit in respect of change in UK tax rate	**14**	–
Total tax charge in the income statement	**(5)**	(23)

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

	2016 52 weeks £m	2015 52 weeks £m
Deferred tax in the income statement:		
Accelerated capital allowances	**7**	–
Retirement benefit obligations	**(4)**	(14)
Rolled over and held over gains	**10**	(1)
Depreciated non-qualifying assets	**2**	–
Unrealised gains on revaluations	**13**	11
Tax losses – UK	**(7)**	(4)
Tax losses – overseas	**(1)**	3
Total deferred tax credit/(charge) in the income statement	**20**	(5)

Taxation – other comprehensive income

	2016 52 weeks £m	2015 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised gains due to revaluations – revaluation reserve	**(12)**	(5)
– Unrealised gains due to revaluations – retained earnings	**(11)**	(3)
– Rolled over and held over gains – retained earnings	**11**	–
– Remeasurement of pension liability	**(9)**	(1)
	(21)	(9)
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– Losses arising during the period	**11**	17
– Reclassification adjustments for items included in profit or loss	**(1)**	(6)
	10	11
Total tax (charge)/credit recognised in other comprehensive income	**(11)**	2

Tax relating to items recognised directly in equity

	2016 52 weeks £m	2015 52 weeks £m
Deferred tax:		
– Tax charge related to share-based payments	**(1)**	–

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

	2016 £m	2015 £m
Deferred tax liability:		
Accelerated capital allowances	**(37)**	(44)
Rolled over and held over gains	**(116)**	(137)
Unrealised gains on revaluations	**(171)**	(161)
Depreciated non-qualifying assets	**(5)**	(7)
Total deferred tax liability	**(329)**	(349)
Deferred tax asset:		
Retirement benefit obligations (note 4.5)	**57**	70
Derivative financial instruments	**69**	59
Tax losses – UK	**14**	21
Tax losses – overseas	**2**	3
Share-based payments[a]	**1**	3
Total deferred tax asset	**143**	156
Total	**(186)**	(193)

a. Tax on share-based payments is recognised directly in equity in the statement of changes in equity.

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £66m in respect of unclaimed capital allowances (2015 £52m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £11m (2015 £10m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

The Finance (No.2) Act 2015 was enacted on 18 November 2015 and reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balance at 24 September 2016.

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 adjusted 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 24 September 2016:			
Profit/EPS	**89**	**21.6p**	**21.5p**
Adjusted items, net of tax	**55**	**13.3p**	**13.3p**
Adjusted profit/EPS	**144**	**34.9p**	**34.8p**
52 weeks ended 26 September 2015:			
Profit/EPS	103	25.0p	24.9p
Adjusted items, net of tax	44	10.7p	10.6p
Adjusted profit/EPS	147	35.7p	35.5p

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

	2016 52 weeks £m	2015 52 weeks £m
For basic EPS calculations	**413**	412
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	**–**	1
– Other share options	**–**	1
For diluted EPS calculations	**413**	414

At 24 September 2016, 2,697,038 (2015 379,182) 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.

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. Valuation multiples derived via third-party inspections are used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by the third-party valuer.

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
Freehold properties excluded from the revaluation as a result of investment plans, along with short leasehold and unlicensed properties 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. Any changes in outlet earnings, or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

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 tenants 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. Where the value of a property derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying property value, due to low levels of income or location characteristics, a spot valuation is applied.

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.

3.1 Property, plant and equipment continued

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 27 September 2014	3,854	959	4,813
Exchange differences	(1)	–	(1)
Additions	55	103	158
Disposals[a]	(31)	(64)	(95)
Revaluation	(34)	(6)	(40)
At 26 September 2015	3,843	992	4,835
Exchange differences	3	3	6
Additions	56	111	167
Disposals[a]	(13)	(82)	(95)
Revaluation	133	(5)	128
At 24 September 2016	**4,022**	**1,019**	**5,041**
Depreciation			
At 27 September 2014	112	464	576
Exchange differences	(1)	(1)	(2)
Provided during the period	20	89	109
Disposals[a]	(26)	(64)	(90)
At 26 September 2015	105	488	593
Exchange differences	2	2	4
Provided during the period	20	91	111
Disposals[a]	(10)	(80)	(90)
At 24 September 2016	**117**	**501**	**618**
Net book value			
At 24 September 2016	**3,905**	**518**	**4,423**
At 26 September 2015	3,738	504	4,242
At 27 September 2014	3,742	495	4,237

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

Certain assets with a net book value of £43m (2015 £40m) 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 24 September 2016 includes £11m (2015 £9m) of assets in the course of construction.

Revaluation/impairment

The freehold and long leasehold properties have been valued at market value, as at 24 September 2016 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.

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% (2015 7%). This impairment relates to outlets with poor trading performance, that are unlikely to generate sufficient cash in the future to justify their current net book value.

Sensitivity analysis

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. It is estimated that, given the multiplier effect, a 2.5% change in the EBITDA of the freehold or long leasehold properties would generate an approximate £70m movement in their valuation. It is estimated that a 0.1 change in the multiple would generate an approximate £32m movement in valuation.

It is estimated that a 1% increase in the discount rate applied during the impairment review, would increase the impairment of property, plant and equipment, which are not re-valued, by approximately £250,000.

Current year 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:

	2016 52 weeks £m	2015 52 weeks £m
Income statement		
Revaluation loss charged as an impairment	**(144)**	(90)
Reversal of past impairments	**64**	36
Total impairment arising from the revaluation	**(80)**	(54)
Impairment of short leasehold and unlicensed properties	**(8)**	(11)
	(88)	(65)
Revaluation reserve		
Unrealised revaluation surplus	**329**	141
Reversal of past revaluation surplus	**(113)**	(116)
	216	25
Net increase/(decrease) in property, plant and equipment	**128**	(40)

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			
24 September 2016	Low	High	Number of pubs	Net book value[a] £m
Freehold properties	**7.5**	**12.0**	**1,282**	**3,491**
Long leasehold properties	**7.5**	**11.0**	**90**	**268**
Total revalued properties	**7.5**	**12.0**	**1,372**	**3,759**
Short leasehold properties				**174**
Unallocated assets[b]				**490**
Total property, plant and equipment				**4,423**

	EBITDA multiple range			
26 September 2015	Low	High	Number of pubs	Net book value[a] £m
Freehold properties	7.0	12.0	1,363	3,566
Long leasehold properties	7.0	10.0	97	276
Total revalued properties	7.0	12.0	1,460	3,842
Short leasehold properties				182
Unallocated assets[b]				218
Total property, plant and equipment				4,242

a. The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,683m and £191m respectively (2015 £2,710m and £200m).
b. Unallocated assets primarily includes unlicensed properties and freehold properties excluded from revaluation as a result of investment plans.

Year on year movements in valuation multiples are the result of changes in property market conditions. Average weighted multiple is 8.6 (2015 8.1).

Included within property, plant and equipment are assets with a net book value of £3,780m (2015 £3,585m), 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 24 September 2016 an amount of £2m (2015 £2m) was included in the balance sheet.

3.1 Property, plant and equipment continued

Capital commitments

	2016 £m	2015 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	**23**	23

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:

	2016 £m	2015 £m
Work in progress	**1**	1
Goods held for resale	**24**	23
Total inventories	**25**	24

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:

	2016 £m	2015 £m
Trade receivables	**4**	3
Other receivables	**14**	11
Prepayments	**14**	14
Other financial assets[a]	**–**	18
Total trade and other receivables	**32**	46

a. Other financial assets in the prior period relate to cash collateral provided by a swap counterparty (see note 4.4). This was fully repaid during the period as a result of a change in the counterparty's credit rating.

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:

	2016 £m	2015 £m
Trade payables	**96**	94
Other taxation and social security	**73**	74
Accrued charges	**94**	103
Other payables	**30**	28
Other financial liabilities[a]	**–**	18
Total trade and other payables	**293**	317

a. Other financial liabilities in the prior period relate to cash collateral provided by a swap counterparty (see note 4.4). This was fully repaid during the period as a result of a change in the counterparty's credit rating.

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.

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.

Provisions

Provisions can be analysed as follows:

	Property leases £m
At 27 September 2014	12
Released in the period	(3)
Provided in the period	5
Utilised in the period	(4)
At 26 September 2015	10
Released in the period	(2)
Provided in the period	5
Utilised in the period	(4)
At 24 September 2016	**9**

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, at fair value, 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.

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.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 27 September 2014	7	8	15
Additions	–	3	3
Disposals[a]	–	(1)	(1)
At 26 September 2015	7	10	17
Additions	–	1	1
At 24 September 2016	**7**	**11**	**18**
Accumulated amortisation and impairment			
At 27 September 2014	5	1	6
Provided during the period	–	2	2
Disposals[a]	–	(1)	(1)
At 26 September 2015	5	2	7
Provided during the period	–	2	2
At 24 September 2016	**5**	**4**	**9**
Net book value			
At 24 September 2016	**2**	**7**	**9**
At 26 September 2015	2	8	10
At 27 September 2014	2	7	9

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

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% (2015 7%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 2% (2015 2%) growth per annum.

4.1 Net debt

Accounting policy

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

	2016 £m	2015 £m
Cash and cash equivalents	**158**	163
Other cash deposits	**120**	120
Securitised debt (note 4.2)	**(1,995)**	(2,027)
Liquidity facility (note 4.2)	**(147)**	(147)
Revolving credit facilities (note 4.2)	**(31)**	–
Derivatives hedging balance sheet debt[a] (note 4.2)	**55**	21
	(1,840)	(1,870)

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

	2016 52 weeks £m	2015 52 weeks £m
Net decrease in cash and cash equivalents	**(7)**	(92)
Add back cash flows in respect of other components of net debt:		
Transfers to other cash deposits	**–**	120
Repayment of principal in respect of securitised debt	**67**	61
Net movement on unsecured revolving facilities	**(31)**	–
Decrease in net debt arising from cash flows	**29**	89
Movement in capitalised debt issue costs net of accrued interest	**(1)**	(1)
Decrease in net debt	**28**	88
Opening net debt	**(1,870)**	(1,958)
Foreign exchange movements on cash	**2**	–
Closing net debt	**(1,840)**	(1,870)

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. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2016 £m	2015 £m
Current		
Securitised debt[a,b]	**75**	67
Liquidity facility	**147**	147
Unsecured revolving credit facilities	**31**	–
Total current	**253**	214
Non-current		
Securitised debt[a,b]	**1,920**	1,960
Total borrowings	**2,173**	2,174

a. Further details of the assets pledged as security against the securitised debt are given on page 107.
b. Stated net of deferred issue costs.

	2016 £m	2015 £m
Analysis by year of repayment		
Due within one year or on demand	**253**	214
Due between one and two years	**137**	95
Due between two and five years	**285**	263
Due after five years	**1,498**	1,602
Total borrowings	**2,173**	2,174

4.2 Borrowings continued

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 consist of 10 tranches as follows:

					Principal outstanding		
Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	**24 September 2016 £m**	26 September 2015 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.21[b]	**152**	161	7 years
A2	550	Fixed-5.57%	2003 to 2028	6.01	**276**	292	7 years
A3N	250	Floating	2011 to 2028	6.29[b]	**189**[c]	201[c]	7 years
A4	170	Floating	2016 to 2028	5.97[b]	**168**	170	7 years
AB	325	Floating	2020 to 2032	5.74[b]	**325**	325	12 years
B1	350	Fixed-5.97%	2003 to 2023	6.12	**135**	151	4 years
B2	350	Fixed-6.01%	2015 to 2028	6.12	**339**	350	8 years
C1	200	Fixed-6.47%	2029 to 2030	6.56	**200**	200	13 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	17 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	19 years
	2,555				**1,944**	2,010	

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 £244m (2015 £222m). Therefore the exchange difference on the A3N notes is £55m (2015 £21m).

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% (2015 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 24 September 2016, Mitchells & Butlers Retail Limited had cash and cash equivalents of £103m (2015 £108m) which were governed by the covenants associated with the securitisation. Of this amount £36m (2015 £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.

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

	2016 £m	2015 £m
Principal outstanding at beginning of period	**2,031**	2,078
Principal repaid during the period	**(67)**	(61)
Exchange on translation of dollar loan notes	**34**	14
Principal outstanding at end of period	**1,998**	2,031
Deferred issue costs	**(7)**	(8)
Accrued interest	**4**	4
Carrying value at end of period	**1,995**	2,027

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 52 weeks ended 27 September 2014. The amount drawn at 24 September 2016 is £147m (26 September 2015 £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

The Group holds two unsecured committed revolving credit facilities of £75m each, and uncommitted revolving credit facilities of £15m, available for general corporate purposes. The amount drawn at 24 September 2016 is £31m (2015 £nil). Both committed facilities expire on 31 December 2017.

4.3 Finance costs and revenue

	2016 52 weeks £m	2015 52 weeks £m
Finance costs		
Interest on securitised and other debt	**(126)**	(130)
Finance revenue		
Interest receivable – cash	**1**	1
Net pensions finance charge (note 4.5)	**(12)**	(15)

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 instrument 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, 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.

4.4 Financial instruments continued

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.

Financial liabilities
Financial liabilities are classified as either 'borrowings at amortised cost' or 'other financial liabilities'.

The borrowings accounting policy is provided in note 4.2. Other financial liabilities are initially measured at fair value, net of transaction costs.

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 does not retain substantially all the risks and rewards of ownership but continues to control a 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

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 at a rate that reflects the credit risk of various counterparties.

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.

Financial risk management

Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Approved 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 committed 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 also has uncommitted revolving credit facilities of £15m.

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
24 September 2016[a]							
Fixed rate:							
Securitised debt[b]	**(194)**	**(194)**	**(193)**	**(197)**	**(199)**	**(2,078)**	**(3,055)**
Floating rate:							
Liquidity facility	**(147)**	**–**	**–**	**–**	**–**	**–**	**(147)**
Unsecured revolving credit facilities	**(31)**	**–**	**–**	**–**	**–**	**–**	**(31)**
26 September 2015[a]							
Fixed rate:							
Securitised debt[b]	(188)	(193)	(194)	(193)	(196)	(2,276)	(3,240)
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 of collateral was posted by a swap counterparty within the securitisation as at 26 September 2015. This collateral has been fully repaid during the period as a result of a change in the counterparty's credit rating. 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.

4.4 Financial instruments continued

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:

	2016 £m	2015 £m
Cash and cash equivalents	**158**	163
Other cash deposits	**120**	120
Trade receivables	**4**	3
Other receivables	**14**	11
Other financial assets[a]	**–**	18
Derivatives	**53**	19

a. As disclosed in note 3.2, other financial assets relate to cash collateral provided by a swap counterparty, which has been fully repaid in the period.

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:

	2016 £m	2015 £m
Net debt (note 4.1)	**1,840**	1,870
Total equity	**1,408**	1,271
Total capital	**3,248**	3,141

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 (2015 £nil) impact on the reported Group profit and £25m (2015 £22m) 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:

	2016 £m	2015 £m
Interest income[a]	**2**	2
Interest expense[b]	**(2)**	(2)
Profit impact	**–**	–
Derivative financial instruments (fair values)[c]	**98**	100
Total equity	**98**	100

a. Represents interest income earned on cash and cash equivalents and other cash deposits (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.

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 £116m (2015 loss of £86m) on cash flow hedges was recognised in equity. A loss of £8m (2015 loss of £31m) was recycled from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 24 September 2016, the Group held 10 (2015 10) interest rate swap contracts with a nominal value of £994m (2015 £1,017m), designated as a hedge of the cash flow interest rate risk of £994m (2015 £1,017m) 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 4.8625% (2015 4.8689%). 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 £404m (2015 £296m).

At 24 September 2016 the Group held one (2015 one) cross currency interest rate swap contract, with a nominal value of £189m (2015 £201m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate $317m (2015 $337m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £53m (2015 £19m).

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 24 September 2016 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	**–**	**–**	**(44)**	**(360)**	**(404)**
– Cross currency swap	**52**	**1**	**–**	**–**	**53**
24 September 2016	**52**	**1**	**(44)**	**(360)**	**(351)**
26 September 2015	19	–	(43)	(253)	(277)

4.4 Financial instruments continued

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

	2016 Book value £m	2016 Fair value £m	2015 Book value £m	2015 Fair value £m
Financial assets:				
– Cash and cash equivalents	**158**	**158**	163	163
– Other cash deposits	**120**	**120**	120	120
– Derivative instruments in designated hedge accounting relationships	**53**	**53**	19	19
– Loans and receivables	**18**	**18**	32	32
Financial liabilities:				
– Borrowings at amortised cost	**(2,173)**	**(2,167)**	(2,174)	(2,234)
– Derivative instruments in designated hedge accounting relationships	**(404)**	**(404)**	(296)	(296)
– Other	**(293)**	**(293)**	(317)	(317)
	(2,521)	**(2,515)**	(2,453)	(2,513)

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 24 September 2016	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Currency swaps	**–**	**53**	**–**	**53**
Financial liabilities:				
Interest rate swaps	**–**	**(404)**	**–**	**(404)**
	–	**(351)**	**–**	**(351)**

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)

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 (MABEPP). 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.

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 24 September 2016. Scheme assets are stated at market value at 24 September 2016 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:

	2016	2015
Pensions increases	**2.9%**	3.0%
Discount rate	**2.2%**	3.6%
Inflation rate	**3.0%**	3.1%

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:

	2016		2015	
	Main plan years	**Executive plan years**	Main plan years	Executive plan 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

4.5 Pensions continued

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 made contributions of £45m per annum, for three years from 1 April 2013. From 1 April 2016 the contributions have increased by the rate of RPI (subject to a minimum increase of 0% and a maximum increase of 5%) and will continue to increase on an annual basis for the following seven years. As part of the recovery plan, the Group made a further payment of £40m on 23 September 2015 on terms agreed with the Trustees. This agreement is subject to review following completion of the current ongoing actuarial valuation which commenced in March 2016. The Group has therefore continued to make additional contributions during the current period as outlined above. 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 £53m (2015 £39m). A similar increase or decrease in the discount rate used would, in isolation, reduce or increase the total pension liability by approximately £2m (2015 £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

	2016 52 weeks £m	2015 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	**(3)**	(6)
Additional pensions finance charge due to minimum funding	**(9)**	(9)
Net finance charge in respect of pensions	**(12)**	(15)
Total charge	**(21)**	(24)

Group statement of comprehensive income

	2016 52 weeks £m	2015 52 weeks £m
Return on scheme assets and effects of changes in assumptions	**(148)**	13
Movement in pension liability recognised due to minimum funding	**126**	(7)
Remeasurement of pension liability	**(22)**	6

Group balance sheet

	2016 52 weeks £m	2015 52 weeks £m
Fair value of scheme assets	**2,381**	2,010
Present value of scheme liabilities	**(2,587)**	(2,112)
Actuarial deficit in the schemes	**(206)**	(102)
Additional liability recognised due to minimum funding	**(131)**	(248)
Total pension liability[a]	**(337)**	(350)
Associated deferred tax asset	**57**	70

a. The total pension liability of £337m (2015 £350m) is represented by a £46m current liability (2015 £46m) and a £291m non-current liability (2015 £304m).

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

	Scheme assets	
	2016 £m	2015 £m
Fair value of scheme assets at beginning of period	**2,010**	1,865
Interest income	**71**	71
Remeasurement gain:		
– Return on scheme assets (excluding amounts included in net finance charge)	**355**	63
Employer contributions	**49**	86
Benefits paid	**(102)**	(73)
Administration costs	**(2)**	(2)
At end of period	**2,381**	2,010

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

	Defined benefit obligation	
	2016 £m	2015 £m
Present value of defined benefit obligation at beginning of period	**(2,112)**	(2,058)
Interest cost	**(74)**	(77)
Benefits paid	**102**	73
Remeasurement losses:		
– Effect of changes in demographic assumptions	**–**	(12)
– Effect of changes in financial assumptions	**(577)**	(38)
– Effect of experience adjustments	**74**	–
At end of period[a]	**(2,587)**	(2,112)

a. The defined benefit obligation comprises £39m (2015 £25m) relating to the MABETUS unfunded plan and £2,548m (2015 £2,087m) 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:

	2016	2015
Cash and equivalents	**15**	94
Equity instruments	**633**	556
Debt instruments:		
– Bonds	**1,600**	1,298
– Real estate debt	**96**	58
– Infrastructure debt	**50**	–
– Absolute return bond funds	**198**	197
– Gilt repurchase transactions	**(202)**	(192)
Gold	**5**	3
Forward foreign exchange contracts	**(14)**	(4)
Fair value of assets	**2,381**	2,010

The actual investment return achieved on the scheme assets over the period was 22.0% (2015 7.4%), which represented a gain of £427m (2015 £131m).

Virtually all equity instruments, bonds and gold have quoted prices in active markets and are classified as Level 1 instruments. Absolute return bonds funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments. Real estate debt and infrastructure debt are classified as level 3 instruments.

In the 52 weeks ended 24 September 2016 the Group paid £6m (2015 £5m) in respect of the defined contribution arrangements, with an additional £1m (2015 £2m) outstanding as at the period end.

At 24 September 2016 the MABPP owed £1m (2015 £1m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

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 market-based 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 (2015 £2m).

The Group had four equity-settled share schemes (2015 four) 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 58 to 81.

The following tables set out weighted average information about how the fair value of each option grant was calculated:

	2016		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	**239.5p**	**282.7p**	366.3p	471.0p
Exercise price[a]	**–**	**264.0p**	–	362.0p
Expected dividend yield[b]	**–**	**2.32%**	–	–
Risk-free interest rate	**0.11%**	**0.69%**	0.90%	1.14%
Volatility[c]	**32.8%**	**28.3%**	27.0%	26.8%
Expected life (years)[d]	**2.92**	**3.99**	3.0	3.92

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
b. 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 35. 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 24 September 2016 and 26 September 2015 are as follows:

	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan	Short Term Deferred Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 27 September 2014	2,749	3,971	1,553	80
Granted	1,549	1,247	219	–
Exercised	(105)	(731)	(245)	(40)
Forfeited	(621)	(529)[a]	(71)	–
Expired	(14)	(33)	–	–
Outstanding at 26 September 2015	3,558	3,925	1,456	40
Granted	2,018	1,647	349	–
Exercised	(220)	(830)	(224)	(40)
Forfeited	(137)	(1,055)[a]	(71)	–
Expired	(1,092)	(72)	–	–
Outstanding at 24 September 2016	**4,127**	**3,615**	**1,510**	**–**
Options exercisable				
At 24 September 2016	**–**	**–**	**820**	**–**
At 26 September 2015	–	–	847	–
Fair value of options granted during the period (pence)[b]				
At 24 September 2016	**159.3**	**57.8**	**282.7**	**–**
At 26 September 2015	311.4	161.3	471.0	–
Weighted average remaining contract life (years)				
At 24 September 2016	**3.4**	**2.9**	**–[c]**	**–**
At 26 September 2015	3.2	2.6	–[c]	0.2
Range of prices (pence) of options outstanding				
At 24 September 2016	**–[d]**	**182.0 – 362.0**	**–**	**–**
At 26 September 2015	–[d]	182.0 – 362.0	–	–

a. The number of forfeited shares in the period includes 811,828 (2015 273,291) 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 286.9p (2015 406.1p).

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.

4.7 Equity continued

Called up share capital

	2016 Number of shares	2016 £m	2015 Number of shares	2015 £m
Allotted, called up and fully paid				
Ordinary shares of 8 13/24p each				
At start of period	**412,520,626**	**35**	411,637,885	35
Share capital issued	**1,103,668**	**–**	882,741	–
At end of period	**413,624,294**	**35**	412,520,626	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.

Dividends

	2016 £m	2015 £m
Declared and paid in the period		
Final dividend for 52 weeks ended 26 September 2015 of 5.0p per share	**21**	–
Interim dividend for 52 weeks ended 24 September 2016 of 2.5p per share	**10**	–
	31	–

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 7 February 2017 to shareholders on the register at close of business on 2 December 2016.

Details of options granted under the Group's share schemes, are contained in note 4.6.

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 £1m has been recognised on shares issued in the period (2015 £2m).

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 270,000 (2015 nil) and subscribed for 268,287 (2015 151,461) shares at a cost of £1m (2015 £nil) and released 477,286 (2015 733,646) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2015 £1m). The 1,584,503 shares held by the trusts at 24 September 2016 had a market value of £4m (26 September 2015 1,523,502 shares held had a market value of £5m).

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 24 September 2016, the trustees, Equiniti Share Plan Trustees Limited, held 1,530,395 (2015 1,479,636) shares in the Company. Of these shares, 474,453 (2015 453,527) shares are unconditionally available to employees, 345,674 (2015 393,491) shares have been conditionally awarded to employees, 689,702 (2015 608,554) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 20,566 (2015 24,064) 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 24 September 2016, the trustees, Sanne Fiduciary Services Limited, were holding 54,108 (2015 43,866) 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 FRS 101 of £2,091m at 24 September 2016 (2015 £248m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

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:

	2016 £m	2015 £m
Short-term employee benefits	**3**	2
Termination payments[a]	**–**	1
	3	3

a. Termination payments relate to accrued pay in lieu of notice for Alistair Darby. Further details are disclosed in the Mitchells and Butlers plc Annual Report and Accounts 2015.

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
Lastbrew 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[a]	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

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
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

a. Shares held directly by Mitchells & Butlers plc.

5.3 Five year review

	2016 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2013 52 weeks £m	2012 53 weeks[a] £m
Revenue	**2,086**	2,101	1,970	1,895	1,889
Operating profit before adjusted items	**318**	328	313	310	304
Adjusted items	**(87)**	(58)	(49)	(29)	(72)
Operating profit	**231**	270	264	281	232
Finance costs	**(126)**	(130)	(132)	(130)	(140)
Finance revenue	**1**	1	1	2	2
Net pensions finance charge	**(12)**	(15)	(10)	(11)	(11)
Profit before taxation	**94**	126	123	142	83
Tax expense	**(5)**	(23)	(30)	(14)	(13)
Profit for the period	**89**	103	93	128	70
Earnings per share					
Basic	**21.6p**	25.0p	22.6p	31.2p	17.1p
Diluted	**21.5p**	24.9p	22.5p	31.0p	17.0p
Adjusted (Basic)[b]	**34.9p**	35.7p	32.6p	32.2p	30.5p

a. The income statement for 2012 is as reported at the 2012 year end and does not include the impact of accounting policy changes under IAS 19 (revised) which were introduced in 2013.
b. Adjusted earnings per share is stated after removing the impact of adjusted items as explained in note 2.2.

Company balance sheet

24 September 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investments in subsidiaries	6	**1,720**	1,716
Deferred tax asset	10	**66**	70
		1,786	1,786
Current assets			
Trade and other receivables	7	**1,034**	529
Cash and cash equivalents		**–**	8
		1,034	537
Current liabilities			
Borrowings	9	**(6)**	–
Trade and other payables	8	**(480)**	(1,329)
		(486)	(1,329)
Non-current liabilities			
Pension liabilities	4	**(337)**	(350)
Net assets		**1,997**	644
Equity			
Called up share capital	11	**35**	35
Share premium account		**27**	26
Capital redemption reserve		**3**	3
Own shares held		**(1)**	(1)
Retained earnings		**1,933**	581
Total equity		**1,997**	644

The financial statements were approved by the Board and authorised for issue on 21 November 2016.

Tim Jones
Finance Director

The accounting policies and the notes on pages 132 to 138 form an integral part of these financial statements.

Registered Number: 04551498

Company statement of changes in equity

For the 52 weeks ended 24 September 2016

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 27 September 2014	35	24	3	(4)	522	580
Share capital issued	–	2	–	–	–	2
Release of own shares	–	–	–	3	(1)	2
Credit in respect of employee share schemes	–	–	–	–	2	2
Remeasurement of pension liability	–	–	–	–	6	6
Deferred tax on remeasurement of pension liability	–	–	–	–	(2)	(2)
Profit after taxation	–	–	–	–	54	54
At 26 September 2015	35	26	3	(1)	581	644
Share capital issued	–	1	–	–	–	1
Purchase of own share	–	–	–	(1)	–	(1)
Release of own shares	–	–	–	1	(1)	–
Credit in respect of employee share schemes	–	–	–	–	2	2
Remeasurement of pension liability	–	–	–	–	(22)	(22)
Deferred tax on remeasurement of pension liability	–	–	–	–	(9)	(9)
Profit after taxation	–	–	–	–	1,413	1,413
Dividends paid	–	–	–	–	(31)	(31)
At 24 September 2016	**35**	**27**	**3**	**(1)**	**1,933**	**1,997**

The profit and loss account is wholly distributable after the deduction for own shares.

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Notes to the Mitchells & Butlers plc Company financial statements

1. Basis of preparation

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. Accordingly, in the period the Company has undergone transition from reporting under UK Generally Accepted Accounting Principles (UK GAAP) to FRS 101 as issued by the Financial Reporting Council (FRC). These financial statements have therefore been prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the FRC. The impact of this transition is shown in note 12.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. There have been 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 IAS 39, 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.

2. Profit and loss account

Profit and loss account

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

The Company recorded a profit after tax of £1,413m (2015 £54m), less dividends of £31m (2015 £nil).

During the period, the Company acquired all of the share capital of Mitchells & Butlers Retail Property Limited by way of a dividend in specie of £1,354m from Mitchells & Butlers Holdings (No. 2) Limited. Subsequently, Mitchells & Butlers Retail Property Limited made a distribution of £501m to transfer an intercompany loan receivable from Mitchells & Butlers Holdings (No.2) Limited to the Company. A further dividend of £853m has also been received by the Company from Mitchells & Butlers Retail Property Limited.

Following the above distributions, the net assets of Mitchells & Butlers Retail Property Limited were reduced by £1,354m and as a result the Company's investment in Mitchells & Butlers Retail Property Limited has been fully impaired.

Audit remuneration

Auditors' remuneration for audit services to the Company was £22,000 (2015 £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

	2016 52 weeks	2015 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 accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability

At 24 September 2016 the Company's pension liability was £337m (2015 £350m).

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 121 to 123.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

5. Share-based payments

Accounting policy

The accounting policy for share-based payments is disclosed in the consolidated financial statements in note 4.6.

Schemes in operation

The charge recognised for share-based payments in the period is £nil (2015 £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 24 September 2016 and 26 September 2015 are as follows:

	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan	Short Term Deferred Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 27 September 2014	884	13	4	80
Granted	456	2	1	–
Exercised	–	–	–	(40)
Forfeited	(284)	–	–	–
Expired	–	–	–	–
Outstanding at 26 September 2015	1,056	15	5	40
Granted	604	–	1	–
Exercised	(90)	(5)	–	(40)
Forfeited	(387)	5	(1)	–
Expired	–	–	–	–
Outstanding at 24 September 2016	**1,183**	**15**	**5**	**–**
Fair value of options granted during the period (pence)[a]				
At 24 September 2016	**159.3**	**57.8**	**282.7**	**–**
At 26 September 2015	252.4	156.0	471.0	–
Weighted average remaining contract life (years)				
At 24 September 2016	**3.4**	**2.1**	**–[b]**	**–**
At 26 September 2015	3.0	2.0	–[b]	0.2

a. Fair value is calculated on the date of grant.
b. SIP shares are capable of remaining within the SIP Trust indefinitely while participants continue to be employed by the Group.

The weighted average share price during the period was 286.9p (2015 406.1p).

Summarised information about options over the Company's shares outstanding at 24 September 2016 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 125.

6. Investments in subsidiaries

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 27 September 2014	1,747
Exchange differences	(1)
At 26 September 2015	1,746
Exchange differences	4
Additions (see note 2)	1,354
At 24 September 2016	**3,104**
Provision	
At 27 September 2014	30
Provided during period	–
At 26 September 2015	30
Provided during period	–
Impairment (see note 2)	1,354
At 24 September 2016	**1,384**
Net book value	
At 24 September 2016	**1,720**
At 26 September 2015	1,716
At 27 September 2014	1,717

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).

7. Trade and other receivables

	2016 £m	2015 £m
Amounts owed by subsidiary undertakings	**1,034**	529

All amounts fall due within one year.

8. Trade and other payables

	2016 £m	2015 £m
Bank overdraft	**28**	28
Amounts owed to subsidiary undertakings[a]	**450**	1,299
Other creditors	**2**	2
	480	1,329

a. Amounts owed to subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

9. Borrowings

Accounting policy

The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.2.

Borrowings can be analysed as follows:

	2016 £m	2015 £m
Current		
Unsecured revolving credit facility	**6**	–
Total borrowings	**6**	–

Unsecured revolving credit facility

The Company holds an uncommitted credit facility of £15m. The amount drawn at 24 September 2016 is £6m (2015 £nil).

10. Taxation

Accounting policy

The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

Deferred tax asset

Movements in the deferred tax asset can be analysed as follows:

	£m
At 27 September 2014	85
Charged to profit and loss account	(13)
Charged to profit and loss account reserves	(2)
At 26 September 2015	70
Credited to profit and loss account	5
Charged to profit and loss account reserves	(9)
At 24 September 2016	**66**

Analysed as tax timing differences related to:

	2016 £m	2015 £m
Pensions	**57**	70
Tax losses[a]	**9**	–
	66	70

a. The tax losses arose in 2008 and were under enquiry with HM Revenue & Customs until this year. The losses are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

11. Equity

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.

12. Transition to FRS 101

As stated in note 1, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies have been applied consistently in preparing the financial statements for the 52 weeks ended 24 September 2016, the comparative information presented for the 52 weeks ended 26 September 2015 and in the preparation of an opening FRS 101 balance sheet at 28 September 2014 (the Company's date of transition).

In preparing its FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and accompanying notes.

Reconciliation of equity

The transition has had no impact on the Company's total equity.

Reconciliation of total comprehensive income

The transition has had no impact on the Company's total comprehensive income. However, the change in accounting for pension administration costs has resulted in an additional £2m charge to profit and loss in the prior period, together with an additional £16m charge for pension interest on the minimum funding liability. The transition adjustments are shown as follows:

	52 weeks ended 26 September 2015 (As reported) £m	Adjustments on transition to FRS 101 £m	52 weeks ended 26 September 2015 (As restated)
Remeasurement of pension liability	(12)	18	6
Deferred tax relating to pension liability	2	(4)	(2)
Profit after taxation	68	(14)	54
Total comprehensive income	58	–	58

Balance sheet impact

The 2015 balance sheet has been restated to show the deferred tax asset on pension liability gross on the balance sheet. At 26 September 2015 this has resulted in the recognition of a £70m deferred tax asset in non-current assets, with the pension liability now shown gross as £350m, rather than £280m as net of the pension liability.

Shareholder information

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Registrar

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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)	1 December 2016
Final dividend record date	2 December 2016
Last date for receipt of Scrip Dividend election forms	17 January 2017
Annual General Meeting	24 January 2017
Final dividend payment date/allotment of Scrip Dividend shares	7 February 2017
Announcement of interim results	May 2017
Interim dividend payment date	July 2017
Pre-close trading update	September 2017
2017 final results announcement	November 2017

Glossary

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.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

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, unless marketed for disposal.

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.

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.dein-alex.de

All Bar One
www.allbarone.co.uk
@allbarone

Browns
www.browns-restaurants.co.uk
@BrownsBrasserie

Castle
www.mbplc.com/findapub

Crown Carveries
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