Mitchells & Butlers

BRANDS PEOPLE LOVE

Annual report and accounts 2012

Our business model

What we do

Mitchells & Butlers is the leading operator of restaurants and pubs in the UK with multiple brands spanning around 1,600 locations.

How we do it

Our 40,000 employees and leading portfolio of brands are focused on delighting our guests and delivering growth in the eating-out market.

How we create value

We run businesses that people love to eat and drink in, and as a result grow shareholder value.

For more information:
Our vision and strategic priorities, page 2

Group financial highlights

Revenue

53 weeks **£1,889m**

52 weeks £1,855m +3.3%

Adjusted operating profit*

53 weeks **£304m**

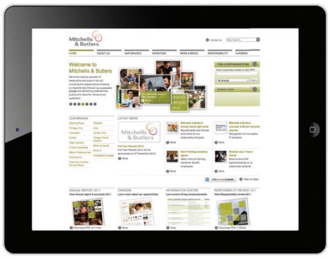
52 weeks £297m +1.0%

Adjusted earnings per share*

53 weeks **30.5p**

52 weeks 29.8p +6.4%

* 'Adjusted' figures refer to results before exceptional items and other adjustments as noted in the Group income statement.



Go online: www.mbplc.com

What you'll find:
Investor relations
Corporate responsibility

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Chairman's statement

Bob Ivell
Chairman

"Since becoming Chairman my foremost priority has been to recruit the right person to lead the business as Chief Executive. Having appointed Alistair, my focus will now shift to enhancing the balance, skills and compliance of the Board through the selection of appropriately qualified independent Non-Executive Directors."

Alistair Darby
Chief Executive
Appointed October 2012

"I am delighted to be leading a Company with great people and popular branded pubs, bars and restaurants. Mitchells & Butlers is well positioned to take maximum advantage of our evolving industry and we have the right strategy in place. I look forward to continuing the business transformation to deliver long term earnings growth and shareholder returns."

Business highlights

- Business transformation programme underway to improve focus on the guest in all areas
- Central support functions and IT infrastructure reorganised with £6m saving delivered in FY 2012
- Increased investment in training and service; new Training Academy opened
- Guest satisfaction and retail employee engagement both improved by 5 percentage points
- Building on enhanced technology platform to further improve guest satisfaction and more targeted marketing
- Award-winning brands and infrastructure projects: Harvester and Toby Carvery top Technomic satisfaction poll; Retail Systems Award for Best Use of Technology; Alex wins Consumer Focus award in Germany; Mitchells & Butlers awarded Carbon Trust Standard for the second time
- 47 new site openings and 10 conversions in the period with expansionary capex of £55m
- EBITDA returns of 17% achieved on expansionary capex invested over the last two years

Since becoming Chairman my foremost priority has been to recruit the right person to lead the business as Chief Executive. I am delighted therefore that Alistair Darby joined us in October following an extensive and rigorous process. Alistair's last role was as Chief Operating Officer at Marston's plc and thanks to 20 years working on some of the largest brands in the pub, drinks and consumer sectors, he has all the operational and brand experience necessary to lead your Company to further success. In his first few weeks in the job he has impressed me greatly. As a consequence of Alistair's appointment I have relinquished my executive responsibility for running the business and reverted to the role of Non-Executive Chairman.

In March, Eddie Irwin, a representative of Elpida Limited, who are a significant shareholder in Mitchells & Butlers, joined the Board as a non-independent Non-Executive Director. He has made a positive contribution in the short time since his appointment. Doug Evans will leave the Board in January 2013 to take up the role of Company Secretary and General Counsel with Hays plc. I would like to thank him for the important role he has played.

My focus will now shift to enhancing the balance, skills and compliance of the Board through the selection of appropriately qualified independent Non-Executive Directors.

Very early on in my tenure as Chairman I realised that the operational changes necessary to make your Company not just 'good' but 'great', could not wait for the appointment of a new Chief Executive. I therefore galvanised the Executive Team to initiate a significant cultural change programme, aimed at freeing our teams from a distracting administrative burden and placing our guests at the heart of everything we do. To this end, we have invested in amenity and service; made senior executives more directly responsible for their brands; and have trialled a new way of working at restaurant and pub level aimed at giving our teams the skills and motivation to deliver outstanding customer service. It is clearly early days but the initial signs are encouraging.

I am consistently amazed by the quality, tenacity and passion of our 40,000 employees. I believe that to have driven the resilient financial performance that they have this year, at a time of cultural and organisational change, where economic conditions have been challenging, is exceptional. On behalf of the Board, I would like to thank them for their efforts.

Bob Ivell
Chairman

Our vision
People love to eat and drink with us.

Strategic priorities	**Focusing the business on the growth in the eating-out market**	**Developing national brands with high customer affinity and relevance**	**Generating high returns on investment through scale advantage**	**Extending the skill base of operational excellence and consumer focus**	**Continuing the sound financial base with a flexible approach to property ownership**
Progress in FY 2012	• Further growth in food sales and margin in a challenging environment • Growth of 5 percentage points in guest satisfaction through investment in improved service levels • Opened 47 new businesses during the year	• New structure means there is ‘top to bottom’ accountability for brands focused on guest satisfaction • Investment in guest service, training and kitchen skills • New IT systems improved brand offer with free wi-fi for our guests • 200th Harvester opened in the year, with brand winning Peach Evolutionary Brand award	• Rigorous method of site selection through detailed approach to site criteria and finding the right targets • 10% reduction in leisure and retail park site development costs since FY 2011 from value engineering	• New ways of working trials introduced to make pub teams increasingly focused on guests • Empowering general managers and their teams to take greater accountability for performance • Trials currently being extended to over 300 restaurants and pubs	• Net debt reduced to 4.5 times EBITDA, with long-term debt financing secured on large, predominantly freehold asset base • 55 leasehold sites opened on leisure retail parks since start of FY 2011
Performance in FY 2012	• Like-for-like food sales up 2.9% • 130 million meals sold	• Like-for-like sales up 2.1% • Award-winning brands	• 17% EBITDA return on investments made in the last two years	• Guest and employee satisfaction levels improved	• 25% EBITDA return on single-site leasehold acquisitions in the last two years
Priorities for FY 2013	• Focus on improving menu quality and choice • Focus on continued improvement in speed and quality of service	• Continued focus on ensuring that our guests are at the heart of everything we do • Leveraging new IT systems to improve customer experience	• Ongoing focus on improving the efficiency of our investments • Further reduction in purchasing and energy costs	• Convert improvement in satisfaction levels to improved like-for-like sales and profitability • Roll out ways of working trials across the estate	• Continued rigorous approach to determining the right towns and sites for our brands
Key risks	• Changes in general economic climate • Failure to anticipate changes in consumer taste	• Failure to anticipate changes in consumer taste • Availability of acquisition targets at the right price	• Availability of acquisition targets at the right price • Cost of goods price increases	• Ability to attract, retain, develop and motivate the best people with the right capabilities	• Availability of acquisition targets at the right price

BRANDS PEOPLE LOVE

A brand to suit every occasion
Our industry leading brands offer excellent service, choice, and value for every occasion.

15 brands

47 new openings in the year

See all our brands online:
www.mbplc.com/ourbrands

Business review

continued

Mitchells & Butlers is the UK's largest operator of managed restaurants and pubs, with a leading portfolio of well-recognised brands and a high quality freehold estate. We focus on long-term growth in the eating-out market. Having repositioned the business to deliver a 40% increase in food sales over the last five years, around three-quarters of our turnover is generated from the guests who eat out in our restaurants and pubs.

This year, we have delivered a resilient operating performance in challenging economic conditions whilst initiating a major change programme to put guest service at the heart of our business.

Operating performance

FY 2012 was a 53 week reporting period. To provide a more appropriate comparison to the prior year, results have been restated on a 52 week basis to exclude the last week of the year. Unless otherwise stated, all figures in this Business review are given on a 52 week basis. A comparative income statement is presented in table 1.

Total revenue growth of 3.3% was driven by like-for-like sales growth of 2.1%. Food sales continue to drive overall sales growth demonstrating the success of our focus on the eating-out market. The brands in the middle to upper end of our spectrum of spend per head have driven this revenue growth.

Like-for-like sales growth	FY 2011 Week 1-52	**FY 2012 Week 1-52**	FY 2013 Week 1-8
Total	2.6%	**2.1%**	-0.1%
Food	4.8%	**2.9%**	1.5%
Drink	1.0%	**1.4%**	-1.9%

Like-for-like sales in the first week of the new financial year were down as a result of unseasonably warm weather last year; since then sales have increased by around 1%.

Adjusted operating profit was 1.0% higher than last year at £297m with operating margins slightly lower than last year at 16.0%.

Business change programme

We have initiated a major business transformation programme which is fundamentally changing the way we work to improve the focus on our guests, our people, our practices and our profits. This year, we have taken some important steps towards achieving our vision: 'People love to eat and drink with us'.

Organisational structure: At the half year we reported that we had simplified our central support functions to increase the focus on our guests; to clarify accountabilities and responsibilities; and to improve the pace of decision making through reduced bureaucracy. We appointed Brand Operations Directors with increased accountability for the performance of their brands; Marketing and HR now sit within their teams. We removed around 90 roles from our support functions and we have launched a performance dashboard to align objectives throughout the organisation.

+2.1%
total like-for-like sales growth

+2.9%
food like-for-like sales growth

As part of our business transformation programme we have created focused brand teams with increased accountability for performance

Table 1: comparative income statement

	FY 2012 £m (53 weeks)	FY 2012 £m (52 weeks)	FY 2011 £m (52 weeks)	Variance (52 weeks)
Revenue	**1,889**	1,855	1,796	3.3%
Adjusted EBITDA	**415**	407	404	0.7%
Adjusted operating profit	**304**	297	294	1.0%
Adjusted PBT	**166**	162	156	3.8%
Adjusted EPS	**30.5p**	29.8p	28.0p	6.4%

'Adjusted' figures refer to results before exceptional items and other adjustments as noted in the Group income statement.

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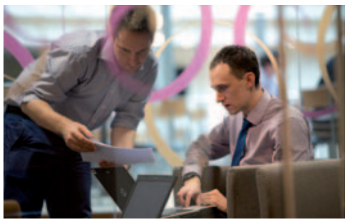


Guests and employees love our brands

Our aim is to place customer service at the heart of everything we do. In the year, we opened a new Training Academy; established a Talent Development team; and increased investment in training.

Employees

+5 percentage points

retail staff engagement improvement

Guests

+5 percentage points

increase in guest satisfaction levels

See all our brands online:
www.mbplc.com/ourbrands

Business review

continued

Supporting outstanding customer service: The core of the change programme is our firmly held belief that we need to place customer service at the heart of our organisation. We have already made good progress on this journey which we will build on over the next few years. We have opened a new Training Academy at our Retail Support Centre; established a Talent Development team to ensure we develop the right people across the business; and increased investment in outlet level service, sales and kitchen training. As a result of this investment, staff engagement has improved 5 percentage points among our retail teams; guest satisfaction scores have improved 5 percentage points; and 8% more of our guests than last year would recommend us to their friends and families as a great place to eat and drink.

We are delighted that our brands and support teams are being recognised externally for their achievements. This year, Harvester and Toby Carvery topped a Technomic poll measuring guest satisfaction; Alex collected a national Consumer Focus award in Germany; Vintage Inns won a National Springboard award for excellence; and Harvester, All Bar One, Sizzling Pubs and Premium Country Dining all collected awards for their food development.

Ways of working: To deliver outstanding service we need to enable our restaurant and pub managers to become leaders and coaches rather than implementers and administrators. Our ways of working trials are aimed at giving our people the skills and motivation to deliver outstanding customer service. These trials have now progressed from nine businesses to over 300. This stage is the final element of the trial and, subject to successful completion, full roll-out will begin in 2013.

Innovation: We will use our improved technology infrastructure to deliver better guest experiences and offer more targeted marketing at a lower annual cost. In the past year, we have rolled out free wi-fi across all of our managed businesses in the UK and are currently launching gift cards for all of our brands. Online bookings have increased to 1.5m from 700k in FY 2011 and visitors to our websites are up by one-third. We were the first national retailer to launch a voucher in Apple's Passbook app and we continue to innovate in social media with more targeted offers to our guests.

Further developments will follow using this platform in the future, both in increasing the efficiency of our central support functions and in further enhancing guest experiences. During the year, the successful launch of our new IT infrastructure was recognised by a Retail Systems Award for Best Use of Technology in the sector.

Brand roll-out

This year, we have continued the roll-out of our brands across both freehold and leasehold sites. We have opened 47 new sites, primarily Harvester, Miller & Carter, Browns and Toby Carvery, creating 1,500 new jobs. We have also converted 10 sites, largely completing the current conversion programme. 38 of the new openings were leasehold, of which 32 were located on leisure or retail parks. Overall EBITDA returns on expansionary capital invested over the past two years were 17%.

We are focused on increasing the level of returns on expansionary capital investment whilst continuing to grow the estate. We have developed rigorous site criteria and 'target town' models for leisure and retail parks, using the lessons we have learned from our initial expansion into this area.

Outlook

We expect the economic environment to remain challenging. Further inflationary and regulatory cost pressures will impact the business in the new financial year, with ongoing alcohol duty increases, further food price inflation and other cost increases, coupled with continued tightness in consumer incomes. We will maintain our focused and disciplined investment in service and amenity in our estate. Overall, we believe our strong brands and assets together with our business transformation programme leave the Company well positioned to grow further in the year ahead.

47

new pubs and restaurants opened, primarily Harvester, Miller & Carter, Browns and Toby Carvery

17%

EBITDA returns on expansionary capital invested over the last two years

Browns and Miller & Carter were key parts of the expansion programme in the year, with new restaurants opening in both traditional locations and leisure or retail parks

BRANDS PEOPLE LOVE

A broader customer experience
We have used our improved IT systems to deliver better guest experiences and offer more targeted marketing.

1.5m online bookings
in FY 2012, up from 700k last year

33% increase
in website visits

Free wi-fi
rolled out across all our managed businesses in the UK

See all our brands online:
www.mbplc.com/ourbrands

Corporate social responsibility

2012 highlights

Healthy eating – Harvester wins top award at the Healthy Food Guide's Healthy Eating Awards

Healthy eating – Mitchells & Butlers signs up to Department of Health salt pledges

Our employees – Retail employee engagement increases by 5 percentage points

Community – Mitchells & Butlers corporate and brand charity donations total over £120,000

Environment – Mitchells & Butlers is re-accredited with the Carbon Trust Standard and wins two awards for energy innovation

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

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

When it comes to eating and drinking-out, we're one of the leading companies in the UK. Our brands are highly visible, so being at the forefront of good corporate practice is vital to our business. Maintaining high corporate social responsibility values is something we take very seriously.

1. Good food

Our commitment to providing our guests with the best value for money food we can is embedded within the Company – from the senior management responsible for sourcing and buying our food through to the chef responsible for preparing and cooking it to perfection.

What's in our food?

We provide our guests with as much information as we can about what is in our food via our websites, our menus and, increasingly, via smart phone apps. Details of the full nutritional value of each dish are already available on our Harvester, Toby Carvery and Crown Carveries websites.

Allergens

This year, our chefs have undergone specific training on managing the potential risks of cross-contamination of allergens in the kitchens, led by our Food Development Managers and our Kitchen Training Managers. This summer, an e-learning module was launched with an all-encompassing training toolkit on food allergens.

Action on salt reduction

This year, we signed up to two of the existing salt pledges for caterers, as part of the Department of Health's Public Health and Responsibility Deal. This means that, over time, we have committed to helping our guests reduce their dietary salt intake by reducing the amount of salt we use in our kitchens and to working with our suppliers to reduce the salt in the products we buy, targeting first those products where salt levels are highest.

Food sourcing

Mitchells & Butlers spends over £300m a year buying food. We insist that our suppliers have clearly-defined policies that set out their environmental and business sustainability responsibilities, with the like-minded aim of seeking continuous improvement.

We have a strategy to shorten our supply chain where possible, to get closer to primary producers, farms and growers. We buy in excess of 31,000 tonnes of fresh UK vegetables each year and we continue to develop strategic relationships with growers, which will maximise seasonality, and deliver fresh and tasty fruit and vegetables to our guests. We will always endeavour to buy British where possible but as important are commercial value for money and a long term security of supply.

Food safety practices

Our employees are extensively trained in the safe storage, handling and preparation of food as well as good kitchen hygiene. We carry out regular independent food safety and hygiene audits across all our restaurants and pubs every year and the results of these audits comprise a direct element of our teams' performance pay and reward.

Young guests

We welcome families into many of our restaurants and pubs and recognise we need to cater for our young guests' particular requirements, providing them with a range of dishes that they will love to eat and that their parents trust. Our family-friendly brands such as Harvester and Sizzling Pubs offer specific menus for children, while Toby Carvery and Crown Carveries offer a small carvery just for kids.

More information is available at www.mbplc.com/responsibility/goodfood

Our employees are extensively trained in the safe storage, handling and preparation of food as well as good kitchen hygiene

BRANDS PEOPLE TRUST

Healthy eating

Harvester recently won a top award at the Healthy Food Guide's Healthy Eating Awards, scooping the top prize in the Budget eating category, with its salad cart offer and calorie information on menus both commended.

The brand also leads the way in providing calorie information to its guests, being the first UK-wide restaurant brand to provide this information on its menus in March 2011.

Find out more online:
www.mbplc.com/responsibility/goodfood

Corporate social responsibility

continued

Our front of house employees receive a comprehensive programme of training. This includes education on the legal requirements of their role, including their responsibility not to serve under 18s and those who are intoxicated

562,919

The number of people who were refused service in 2012 because they could not provide valid proof of age when challenged by our employees

238,673

The number of people our employees refused to serve in 2012 because they were suspected of being intoxicated

2. Serving alcohol responsibly

Mitchells & Butlers is committed to operating all of its licensed premises responsibly, safely and within the law and to work closely and constructively with the authorities. The Company does not operate any 24 hour licences.

We are closely engaged with the Government's Public Health Responsibility Deal and have signed up to five alcohol pledges, including providing clear unit labelling on our drinks menus, supporting alcohol awareness campaigns and taking part in the Challenge 21 scheme.

Prevention of underage drinking

We operate a Challenge 21 policy within all our businesses in England and Wales. If a guest appears to be under 21 then we require proof that they are over 18 before alcohol will be sold. In addition, to reflect the changes in Scottish law, we now have our Challenge 25 programme in place across our Scottish businesses.

In 2012, our employees refused to serve 562,919 people who could not provide valid proof of age when challenged.

Investment in training

Each front of house employee receives a comprehensive programme of training. This includes education on the legal requirements of their role, including their responsibility not to serve under 18s and those who are intoxicated. Our employees must also complete licensing refresher training twice a year.

Last year, 1,858 employees completed the British Institute of Innkeeping (BII) Award for Personal Licence Holders or the Scottish Certificate for Personal Licence Holders, which are the recognised national qualifications in the licensed trade.

Unit awareness

We are working with Drinkaware to help increase guest understanding of unit information in our restaurants and pubs. Currently, 1,400 of our restaurants and pubs have unit information printed on drinks menus. Mitchells & Butlers is an active member and funder of the Drinkaware charity and supports their various unit awareness campaigns. As part of our comprehensive training programme our employees have access to unit information for our most popular products so they are able to pass on information to guests if asked.

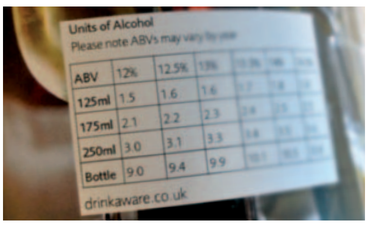
Community actions to tackle alcohol harms

We strongly support local Pubwatch schemes and crime prevention initiatives and it is Company policy for all general managers to join and support a local Pubwatch scheme. We also actively support our general managers in participating in local Best Bar None schemes.

Mitchells & Butlers is an active member and funder of the Drinkaware charity and supports their various unit awareness campaigns

drinkaware

1,400 of our restaurants and pubs have unit information printed on drinks menus



Our annual Business Forum encourages the exchange of information, views and ideas between employees and senior managers

3. Our employees

As one of Britain's biggest retail employers it is critical that we listen to our employees and provide opportunities for them to ask questions, suggest ideas and offer opinions. There are a number of ways we achieve this:

Employee engagement

In July we asked all of our employees to complete an online survey to tell us how they were feeling about their job. In the retail estate, response rates and engagement scores increased on last year's results. We were delighted that scores for our retail employee and general manager groups beat benchmark data in terms of both job satisfaction and commitment to the Company. Additionally, to understand how our retail support team were feeling about their jobs, we launched a pulse survey in May and followed this up with a number of focus groups to better understand the results. The findings from these focus groups were presented to senior managers and, via a workshop, a number of actions were identified which are now included in the HR strategy.

Online resources

We have a dedicated website – www.OurHub.co.uk – where our employees can access important information about their job role, such as pay, benefits and grievance procedures, training and careers, from their phones, tablets or PCs. Employees can also email their questions to us via this website.

Ideas exchange

Our annual Business Forum encourages the exchange of information, views and ideas between employees and senior managers. Questions can be submitted to our Forum Reps by any employee and are typically about pay, benefits, learning and development. Detailed coverage of the Forum and the answers to questions are published online on our employee website.

Additionally, we facilitated a number of employee discussion groups hosted by senior managers.

Learning and development

This year saw the opening of a state of the art in-house Training Academy located at our Retail Support Centre in Birmingham. The Academy will be used by our 40,000 central support and retail employees for inductions, conferences, briefings and learning and development programmes.

Recently, Browns restaurants invested £150,000 in launching an apprenticeship scheme in a bid to help address a staff shortage across the sector as a whole and better develop our employees for the future. More information on this can be found at mbplc.com/newsandmedia

Confidential hotline

If any of our employees have any concerns about anyone in the business misusing their position or conducting activity at work which is dishonest, illegal or endangering our people, guests or the environment, they can tell us about it by calling our confidential hotline number.

More information can be found at www.mbplc.com/responsibility/ouremployees

32,811

The number of employees who completed our annual engagement survey in 2012

We have a dedicated website – www.OurHub.co.uk – where our employees can access important information about their job role

Browns restaurants invested £150,000 in launching an apprenticeship scheme

To mark Armed Forces Day in June, Crown Carveries offered a free carvery meal or breakfast to Service people, past and present, for the fourth year running

£120,000
The total value of corporate and brand charity donations in 2012

£40,650
The value of corporate donations awarded to numerous charities and good causes via fundraising carried out by our employees and pubs in 2012

£45,000
Raised by O'Neill's in March 2012 for Cash for Kids

£38,268
Donated to Make-A-Wish® when Harvester donated 25 pence for every Chocolate Star Ice Cream Sundae sold

We are two years into a three year programme supporting the Prince's Trust. This year, Mitchells & Butlers donated £15,000 to the Prince's Trust

Raising funds to support
The Prince's Trust

4. Working with local communities

Mitchells & Butlers operates a number of charitable donations schemes to actively encourage our employees to get involved with national and local charities as well as worthy local causes within their immediate communities.

The Good Cause fund

The Good Cause fund was set up in 2012. Our retail employees can apply for a donation towards a community or charity event they are taking part in. Last year, Mitchells & Butlers donated £15,650 to worthy causes such as Ciaran's Cause, a charity supported by the Toby Carvery in Warrington whose aim is to provide defibrillators in all 69 local primary schools.

Employee donations programme

Any employee can apply for a charitable donation from Mitchells & Butlers to go towards a personal charity event they are taking part in or organising. Last year, we donated £25,000 to a wide range of charities including MS Society, CLIC Sargent and the British Heart Foundation.

Prince's Trust

We are two years into a three year programme supporting the Prince's Trust. This year, Mitchells & Butlers donated £15,000 to the Prince's Trust. Earlier this summer we put together a team of eight employees to participate in Million Makers – a fundraising initiative where teams compete to raise as much money as possible, by January 2013.

Supporting England and Great Britain Hockey

We are also two years into a three year sponsorship deal worth £90,000 as an official partner of England and Great Britain Hockey, with Harvester having become their official restaurant partner.

Our brands – at the heart of our communities

According to official figures, 22% of all nurses in the UK missed out on precious time spent with friends and families to look after those in need. In January 2012, Crown Carveries launched a public campaign to reward the dedication and expertise of these unsung heroes. Nearly 7,000 nursing staff took the brand up on its offer of a free meal.

To mark Armed Forces Day in June, Crown Carveries offered a free carvery meal or breakfast to Service people, past and present, for the fourth year running. This year, Crown Carveries donated 6,700 carvery meals and 300 breakfasts in the week leading up to Armed Forces Day.

Harvester donated 25 pence from every special Chocolate Star Ice Cream Sundae sold to Make-A-Wish® Foundation UK. The brand donated a total of £38,268. Harvester restaurants have raised more than £200,000 for the charity, which is the organisation's chosen charity, over the last five years.

As part of its St Patrick's Day celebrations, O'Neill's Irish-jigged its way from Aberdeen to Bournemouth and all the pubs in between and raised over £45,000 for Cash for Kids.

Our restaurants and pubs up and down the country also supported the Poppy Appeal in November 2011 and Marie Curie's Great Daffodil Appeal in March 2012.

More information is available at www.mbplc.com/responsibility/communities

Mitchells & Butlers won two awards this year in recognition of our innovation in energy reduction

5. The environment

The reduction of our consumption of energy is now a fundamental part of our everyday business.

We are proud to be one of the few businesses to achieve re-certification of the Carbon Trust Standard by delivering an 8% year on year carbon emission reduction relative to the number of meals we serve each year – some 130 million.

Of particular note is the success of our installation of LED lighting. This is helping us to make considerable savings in our electricity bills and by the end of 2013 we anticipate that all the Front of House lighting in all our businesses will be LED.

Mitchells & Butlers won two awards this year in recognition of our innovation in energy reduction, at the Refrigeration and Air Conditioning (RAC) Cooling Industry Awards 2012; the Environmental Collaboration of the Year award, for developing a free air cellar cooling system along with its partners Climate Centre and GEA Searle, and the End User of the Year (non-supermarket). The judges recognised Mitchells & Butlers as an end user who is willing to push the boundaries with new technology and techniques.

Energy Champions Network

The Energy Champions Network is one of a number of initiatives that our in-house energy team is pursuing to drive energy reduction across the Company. We have Energy Champions in every one of our districts who help drive the reductions at the frontline.

Waste not, want not

We have made a great deal of progress in the last few years in collecting and recycling waste, turning it into something that is useful. Recycling or converting our waste into a source of renewable energy is helping hugely to reduce the environmental impact of our businesses. 82% of our total waste (card, plastic, glass and food, for example) was diverted from landfill last year. In carbon emissions terms, this volume of recycling is the equivalent of taking 4,040 cars off the road.

Water management

We are working with manufacturers to reduce the amount of water we use. Devices such as self-closing taps and Hippo bags in our toilets are also being installed where we undertake any refurbishment projects. Our trials of collecting water consumption data every half an hour, though at a very early stage, are showing some promising results and we will be increasing the number of sites included in our trials through this year.

More information can be found at www.mbplc.com/responsibility/environmentalconcerns

8%

Our year on year carbon emission reduction relative to the number of meals we serve each year

120

The number of Energy Champions that work in our restaurants and pubs

4,040

In carbon emissions terms, the total amount of waste we recycled last year is the equivalent of taking 4,040 cars off the road

We are proud to be one of the few businesses to achieve re-certification of the Carbon Trust Standard

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

Financial review

£1,889m
Revenue up 3.3% on a 52 week basis

£147m
Total capital expenditure

£166m
Adjusted profit before tax up 3.8% on a 52 week basis

£32m
Net cash flow

Tim Jones
Finance Director

+5.3%
Retained Estate total revenue growth

+8.5%
Retained Estate food revenue growth

£10m
annualised savings on central support functions and infrastructure

+3.1%
Retained Estate adjusted operating profit growth

FY 2012 was a 53 week period. A restated 52 week comparative income statement is detailed in the Business review. With the exception of the section describing the performance of the Retained Estate, all figures in this Financial review are stated on a 53 week basis. To provide a meaningful comparison, all year on year growth rates are on a 52 week basis.

Total revenues of £1,889m were up 3.3%, driven by like-for-like growth as well as openings of new restaurants and pubs. Adjusted operating profit of £304m was up 1.0% with operating margins declining slightly as a result of increased investment into outlet level service and amenity as well as inflationary and regulatory cost pressures.

After net interest costs of £138m and increased costs of exceptional items and other adjustments (detailed below), profits before tax declined to £83m (2011 £132m), due primarily to movements in the valuation of the property portfolio.

The pre-exceptional tax charge of £41m is an effective rate of 25% of profit before tax, a decrease from 27% in FY 2011, primarily as a result of the reduction in the standard rate of UK corporation tax.

Basic earnings per share reduced to 17.1p (2011 30.7p).

At the end of the year, the business comprised 1,576 managed businesses in the UK and Germany and 62 leased or franchised businesses.

Retained Estate

In the previous financial year, the Group disposed of 333 non-core pubs for £373m which had contributed £34m of sales and £6m of operating profit in FY 2011. Excluding this, the Retained Estate delivered revenue growth of 5.3% and adjusted operating profit growth of 3.1% on a 52 week basis.

	FY 2012 £m (52 weeks)	FY 2011 £m (52 weeks)	% growth (52 weeks)
Revenue	**1,855**	1,762	5.3%
Adjusted operating profit	**297**	288	3.1%
Adjusted operating margin	**16.0%**	16.3%	-0.3%

Total sales growth of 5.3% was driven by food sales growth of 8.5%, with drink sales growth of 3.7%. Food sales have now increased to 50% of total sales as the business continues to focus on the long term growth in this market.

Excluding the impact of new site openings, like-for-like sales growth of 2.1% was driven by growth in like-for-like food sales of 2.9%, with like-for-like drink sales up 1.4%. Drink volumes continue to decline, partly as a result of increases in alcohol duty which have led to higher drink prices across the industry. Food main meal volumes were also slightly lower than last year. Guests continue to prioritise special occasions, with sales and volumes significantly up on many of the key events throughout the year.

Over the 52 weeks, operating costs were higher than last year due to inflationary and regulatory increases in alcohol duty, the national minimum wage, the Carbon Reduction Charge, business rates, rent, energy and food costs, as well as investment into customer facing areas. Outlet employment costs as a percentage of sales have increased by 0.5 percentage points to 25.3% as a result of the impact of new site openings, the Company's continued move towards food sales, which require a higher degree of service, and as a result of increased investment in enhancing the guest experience, staff development and training.

Alex, one of Germany's leading bar and brasserie brands opened its latest restaurant in July 2012 at Frankfurt Airport

A number of measures have partially offset these cost pressures. Simplification of central support functions and infrastructure during the year resulted in an annualised saving of £10m, of which £6m impacted FY 2012, and there has been a reduction in performance-related payments.

As a result, the Retained Estate delivered adjusted operating profit of £297m on a 52 week basis, 3.1% higher than last year. The adjusted operating margin was 16.0%, down 0.3 percentage points over the full year, representing a recovery from the first half deficit of 0.7 percentage points.

Internal rent

A regime of internal rents is in place to enable greater internal transparency around the performance of freehold and leasehold properties and external transparency concerning the performance of the operating and property functions. The operating performance is monitored on a regular basis through a system of profit reviews through all levels of the Company. Estate management is primarily monitored through the Portfolio Development Committee. Further details are given in note 2 of the accounts.

53 weeks	Operating £m	Property £m	Total £m
Turnover	1,889		1,889
EBITDAR	467		467
External rent	-52		-52
Internal rent	-195	195	–
EBITDA	220	195	415
EBITDA %	11.6%		22.0%

Exceptional items and other adjustments

Total exceptional items and other adjustments reduced profit before tax by £83m and consisted of a £11m net pensions finance charge; a £47m charge relating to the revaluation of the property portfolio and short leasehold impairment review; a £5m impairment of the goodwill relating to the acquisition of Ha Ha Bar & Grill Ltd.; a £6m charge for professional fees and other costs relating to the approach from Piedmont Inc in September 2011 and £14m of costs relating to the internal restructuring and IT reorganisation which is generating £10m of annualised savings.

Cash flow

	FY 2012 £m (53 weeks)	FY 2011 £m (52 weeks)
EBITDA before exceptional items	**415**	404
Working capital movement/ non-cash items	**-28**	-28
Pension deficit contributions	**-40**	-40
Cash flow from operations before exceptional items	**347**	336
Maintenance and infrastructure capex	**-92**	-90
Interest	**-129**	-134
Tax	**-25**	-20
Share capital	**–**	2
Free cash flow before exceptional items	**101**	94
Expansionary capex	**-55**	-82
Disposals	**3**	424
Operating exceptionals	**-17**	–
Net cash flow	**32**	436

EBITDA of £415m was generated by the business over the 53 weeks. There was a working capital outflow of £28m, largely as a result of additional payments made in the 53rd week. Pension deficit contributions of £40m were made, in line with the deficit recovery plan agreed with the Trustees following the 2010 triennial review of the schemes.

Cash flow from operations before exceptional items was £347m. This was reduced by £92m of maintenance capital, £129m of net interest and £25m of cash tax to produce £101m of free cash flow before exceptional items, slightly higher than last year. Expansionary capital was lower than last year at £55m, a small number of disposals generated £3m of cash, and there were £17m of cash operating exceptional items, resulting in £32m of net cash generation in the year.

Net debt was reduced to £1.8bn, representing 4.5 times the 52 week EBITDA (FY 2011 4.7 times Retained Estate EBITDA). Net debt within the securitisation was £2.0bn and cash held outside the securitisation was £0.2bn.

Capital expenditure

Total capital expenditure in the year was £147m, with £83m spent maintaining and enhancing the high level of amenity in the Group's restaurants and pubs, £9m on infrastructure projects, mainly in energy efficiency and IT, and £55m on new site openings.

EBITDA returns on expansionary capital invested over the last two years were 17%. Within this, returns on single site leasehold acquisitions remained high at 25% and this area will remain the focus of our expansion going forward. Returns on freehold acquisitions were 13%, on packaged lease acquisitions were 14% and on the residual conversion programme were 16%.

Financial review

continued

Harvester has 205 'Salad and Grill' restaurants across the UK, making it Mitchells & Butlers' largest brand by turnover

£5m of the infrastructure capital was in the area of energy efficiency projects, generating ROIs of over 50%. The business was awarded the Carbon Trust Standard for the second time this year, making Mitchells & Butlers one of fewer than one hundred companies globally to have achieved this.

Dividends

The Board is mindful of the attraction of the resumption of dividend payments and will continue to monitor net cash flow generation, particularly in the light of the forthcoming triennial pensions valuation as at March 2013, before taking a decision on timing and quantum.

Balance sheet

A Red Book valuation of the freehold and long leasehold estate has been completed in conjunction with the property valuers CBRE. In addition the business has conducted an impairment review on short leasehold and unlicensed properties. The overall decrease of £37m is reflected as a £47m charge in the income statement and a £10m increase in the revaluation reserve.

The pre-tax pensions deficit, as measured under IAS 19, increased to £88m in the year, primarily as a result of a reduction in AA rated corporate bond yields to 4.3% (FY 2011 5.2%) increasing the present value of scheme liabilities to £1,698m (FY 2011 £1,509m). Assets increased to £1,610m (FY 2011 £1,472m) through strong investment performance and £40m of additional Group contributions. This deficit is sensitive to a number of key assumptions as shown in the table below:

Assumption	Movement	Impact on IAS 19 deficit
Discount rate	+0.1%	-£32m
Inflation rate	+0.1%	+£30m

The next triennial actuarial valuation of the schemes is due as at March 2013. The 2010 review resulted in an agreed valuation deficit of £400m. Given the current low levels of real gilt yields, the deficit is expected to have increased since that date.

Tim Jones
Finance Director

Cautionary statement

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

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

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

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

Key performance indicators

It is a key principle of the Group to align the interests of the Directors and other employees with those of its shareholders. Executive remuneration therefore includes measures linked to certain of the KPIs below.

Full details of the various schemes in operation are shown from page 34 to 40 in the Report on Directors' remuneration. In FY 2012 Mitchells & Butlers implemented and monitored its performance against its strategy through three KPIs, the performance of which are shown below.

It should be noted, however, that this does not represent an exhaustive list of the measures employed to monitor Executive performance, with a variety of other methods including guest and employee satisfaction, health and safety and corporate social responsibility metrics used. These are discussed in more detail in the Business review on pages 2 to 7, the Corporate social responsibility review on pages 8 to 13 and the Financial review on pages 14 to 16.

KPI	KPI definitions	2012 progress
1. Same outlet like-for-like sales growth	The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.	Our operational and marketing plans have delivered like-for-like sales growth of 2.1% in FY 2012 compared with the prior year (2.6% in FY 2011).
2. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	52 week adjusted operating profit and adjusted EPS were up 1.0% and 6.4% respectively in FY 2012 as a result of sales growth and lower tax and interest charges; offset by the impact of inflationary cost increases and investment in service and amenity (down 8.7% and 5.7% in FY 2011).
3. Incremental return on expansionary capital	Incremental return is the growth in annual site EBITDA expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a site or to materially change the customer offer.	The performance in this area remains above our cost of capital. Pre-tax EBITDA returns of 17% are being achieved on the expansionary capital projects carried out over the last two years (21% as at FY 2011).

Risks and uncertainties

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

The processes that are used to identify and manage risks are described in the Internal control and risk management statement on pages 30 and 31.

Actively managing potential risks

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

Operational risks	Risk description	Mitigating activities
Cost of goods price increases	Increases in the price of goods for resale as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base consequently impacting margins.	Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry on the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. The Company continually evolves the composition of menus and retail prices in order to optimise value to the customer as well as profits for the Company.
Property strategy and acquisition targets	Mitchells & Butlers' strategy is to increase its number of restaurants to drive further scale advantage and provide strong incremental returns. However, it may not be possible to identify and acquire suitable sites on acceptable terms and investments may not perform as anticipated.	The Company's dedicated Acquisitions and Asset Planning team employs a rigorous project appraisal process in respect of investments, using external advisers where necessary. Post-investment performance of acquired or converted sites investments is monitored in detail.
People planning and development	Mitchells & Butlers' business has a strong customer focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation.	Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. The Company also makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore an employee survey is conducted bi-annually to establish employee satisfaction and engagement and compare it with other companies as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.
Energy price increases	Mitchells & Butlers is a large commercial user of gas and electricity. There is a risk that costs increase because of global increases in demand and uncertainty of supply in energy producing nations.	The energy procurement strategy seeks to reduce the risk of cost increases and uncertainty over energy prices by a rolling programme of short and medium-term purchases against forecast requirements. A dedicated Energy Management team is responsible for optimising energy usage across the organisation by promoting energy efficient working practices via training and educational programmes and by the installation of energy efficient equipment.
Business continuity and crisis management	Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.	The Company has in place crisis and continuity plans that are tested and refreshed regularly.

Risks and uncertainties

continued

Finance risks	Risk description	Mitigating activities
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.
Pension fund deficit	There is a risk that the pension fund deficit increases because of poor investment performance, lower long-term bond yields or increased life expectancy, leading to unexpected increases in funding requirements by the Company. The triennial actuarial valuation carried out as at 31 March 2010 resulted in a deficit of £400m.	Mitchells & Butlers maintains a close dialogue with the Trustees of the pension schemes and three of the 12 Trustees are appointed by the Company. The Company has made significant additional contributions to reduce the funding deficit. The funding levels and contribution requirements will be reviewed again at the next triennial valuation as at March 2013.

Regulatory risks	Risk description	Mitigating activities
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 allergy specialists to ensure that our food procedures are safe. Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. Comprehensive health and safety training programmes are in place.

GOVERNANCE

Find out more online:
www.mbplc.com/ourbrands

In this section

Board of Directors

1. Bob Ivell, aged 60
Non-Executive Chairman
Appointed as Interim Non-Executive Chairman in July 2011, Bob became Executive Chairman in October 2011 and reverted to Non-Executive Chairman in November 2012 following the appointment of Alistair Darby. Bob has over 30 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants and pubs. He is currently Senior Independent Director of Britvic plc and Chairman of David Lloyd Leisure Limited. He was previously a main board director of S&N plc in the role of Chairman and Managing Director of the Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Chairman of Park Resorts, Chairman of Next Generation Clubs, Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands and a director of The Restaurant Group.

2. Alistair Darby, aged 46
Chief Executive[a]
Alistair was appointed Chief Executive in October 2012. Alistair has more than 20 years' experience working on some of the UK's best known brands in the pub, drinks and consumer sectors, including roles with Mars Confectionery, Wolverhampton and Dudley Breweries and United Distillers. He joined Marston's PLC in 1997 and has held senior operational and strategic roles, including leadership of its branded and suburban managed pubs, its beer division and its tenanted and leased pub company. He became a Board member of Marston's PLC in 2003 and was appointed Chief Operating Officer in 2011.

3. Doug Evans, aged 50
Company Secretary & General Counsel[a]
Appointed to the Board in October 2011 having held the position of Company Secretary & General Counsel since he joined Mitchells & Butlers in January 2011. Doug was previously at Royal Mail where he was Group General Counsel. Prior to this he held Company Secretary & Corporate Legal Director positions at Exel plc and Engen Limited.

Doug will step down from the Board at the conclusion of the 2013 AGM.

4. Tim Jones, aged 49
Finance Director[a]
Tim was appointed Finance Director in October 2010. Prior to joining the Company, he held the position of Group Finance Director for Interserve plc, a support services group. Previously, he was Director of Financial Operations at Novar and held senior financial roles both in the UK and overseas in the logistics company, Exel plc. Tim is a member of the Institute of Chartered Accountants in England and Wales and obtained an MA in Economics at Cambridge University.

5. Douglas McMahon*, aged 47
Non-Executive Director
Appointed a Non-Executive Director in October 2010, Douglas is a Managing Director of Tavistock Group and is a nominated shareholder representative of Piedmont Inc. He has 20 years of marketing experience, previously serving as Chairman and CEO of Publicis New York, General Manager of J. Walter Thompson New York and Chief Marketing Officer at Consumer News and Business Channel (CNBC).

* Alternate – Richard McGuire

6. Ron Robson, aged 49
Deputy Chairman
Appointed as Deputy Chairman in July 2011, Ron is a Managing Director of Tavistock Group and is a nominated shareholder representative of Piedmont Inc. He was previously Chief Financial Officer of Tamar Capital Partners and Group Finance Director of Kenmore, both property investment and management groups. From 2005 to 2008 he was Group Finance Director of The Belhaven Group plc, a listed pub retailing, brewing and drink distribution group. Prior to that he held a number of senior finance roles including Group Finance Director of a listed shipping and logistics group, and trained as a Chartered Accountant with Arthur Andersen.

7. Eddie Irwin, aged 53
Non-Executive Director
Appointed as a Non-Executive Director in March 2012, Eddie is a nominee of Elpida 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. He is a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators.

Key
a – A member of the Executive Committee

Directors' report

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

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

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

The Directors present their report and the audited financial statements for the year ended 29 September 2012. A review of the businesses, activities and future developments of the Company and its subsidiaries is given on pages 1 to 20 which, together with the Corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 18 to 20 and 30 to 31 and details about financial instruments are shown in note 18 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's business. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's business are set out on page 17.

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

Principal activities

Mitchells & Butlers is the leading operator of managed restaurants and pubs and, as at 29 September 2012, had an estate of 1,638 sites including 62 leased and franchised sites and 38 restaurants in Germany.

Share capital

The Company's issued ordinary share capital as at 29 September 2012 comprised a single class of ordinary shares of which 409,923,805 shares were in issue and listed on the London Stock Exchange (24 September 2011 409,467,418 shares). Of the issued share capital, 429 shares were held in Treasury and the Company's employee share trusts held 2,131,456 shares. Details of movements in the issued share capital can be found in note 21 to the financial statements on page 71. Each share carries the right to one vote at general meetings of the Company. Participants in the Share Incentive Plan ('SIP') may complete a Form of Instruction which is used by the SIP Trustee as the basis for voting on their behalf. 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.

During the year, shares with a nominal value of £38,983 were allotted under all-employee schemes as permitted under Section 549 Companies Act 2006. No securities were issued in connection with a rights issue during the year.

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

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 40 of the Report on Directors' remuneration.

Dividends

No final dividend will be paid in respect of the year ended 29 September 2012 (2011 nil). No interim dividend was paid during the year (2011 nil).

Interests in voting rights

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

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	107,854,119	26.26	Direct holding
Elpida Group Ltd	92,090,885	22.43	Direct holding
Smoothfield Holding Limited	14,185,101	3.45	Direct holding

* Using the total voting rights figure announced to the London Stock Exchange on 31 October 2012 of 410,649,762, being the Company's issued share capital, excluding the 429 shares held in Treasury.

Directors

Details of the Directors as at 26 November 2012 and their biographies are shown on pages 22 and 23. The Directors at 29 September 2012 and their interests in shares are shown on page 40. Changes to the Board of Directors during the year and subsequent to the year end are set out in full in the Corporate governance statement on page 29.

The powers of the Company's Directors are set out in the Company's Articles of Association. In accordance with the UK Corporate Governance Code, the Directors have made a commitment to retire at each AGM and offer themselves for re-election. At the 2013 AGM the Company is seeking to alter its Articles of Association to reflect this commitment.

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

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

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

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

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

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

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

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

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

Employment policies
The Group employed an average of 41,178 people in 2012 (2011 40,728). Through our diversity and equal opportunities policy, the Company aims to provide an environment which enables job candidates with disabilities to perform better by seeking, where possible, to make reasonable adjustments. Through our online recruitment system, candidates can inform us direct about their disability, so that we can make adjustments, enabling them to perform to the best of their ability on assessment events.

Should any employee of the Company become disabled during their time with us, we actively make adjustments, including arranging appropriate training, to keep the employee with us. We take steps both to increase the effectiveness of employees with disabilities and to ensure they are in a suitable role. A more detailed account can be found in our separately published Social Responsibility Review 2012 at www.mbplc.com/responsibility

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

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

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

Provisions which apply in the event of a takeover or reconstruction

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

It is proposed that the Performance Restricted Share Plan, Short Term Deferred Incentive Plan, Sharesave Plan and Share Incentive Plan will be renewed at the 2013 AGM as their 10 year life will be expiring in April 2013 (see the Report on Directors' remuneration for further information). The rules of the renewed share plans will contain similar provisions regarding a takeover or reconstruction of the Company as set out above.

Directors' report

continued

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants and pubs, discussion groups with Executive Committee members, annual surveys for all employees and the Mitchells & Butlers' annual Business Forum. Business Forum representatives collect questions from employees across the Company and put them to a special Executive Committee. The questions and answers are published in *What's Cooking*.

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

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

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the Sharesave Plan and the Share Incentive Plan (which includes Partnership shares). The Company also operates four other plans on a selective basis, which are the Performance Restricted Share Plan, the Short Term Deferred Incentive Plan, the Executive Share Option Plan and the Long Term Incentive Plan. Further details on the plans are set out in the Report on Directors' remuneration. It is intended that both the all-employee share plans, the Performance Restricted Share Plan and the Short Term Deferred Incentive Plan will be renewed at the AGM in 2013 so grants of awards under those plans can continue to be paid in FY 2013 (see the Report on Directors' remuneration for further information).

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. A total of 350,000 shares in the Company were purchased by the employee benefit trust during FY 2012.

Policy on payment of suppliers
Mitchells & Butlers plc is a holding company and has no trade creditors.

The policy of its principal operating subsidiaries is to agree particular terms with major suppliers and to abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in the month following that in which the subsidiaries receive a valid invoice. The average number of days the Group takes to pay an invoice is 40 days (2011 38 days).

Charitable donations and charitable activity
The Company continues to support community initiatives and charitable causes, full details of which are given on page 12 in the Corporate social responsibility section of this Annual report.

Political donations
The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2013 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

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

The current funding arrangements of the Group consist primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility). Further information regarding these arrangements is included in note 17. The terms of the securitisation contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group treasury.

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

Going concern
The financial statements which appear on pages 43 to 82 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, within this context, a robust review has been undertaken of projected performance against the securitisation 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 note 1 on page 48.

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

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

Auditor
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.

By order of the Board

Doug Evans
Director & Company Secretary
26 November 2012

Directors' responsibilities statement

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

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

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

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

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

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

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

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

Responsibility statement
The Directors confirm that to the best of our knowledge:

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

Signed by

Tim Jones
Finance Director
26 November 2012

Corporate governance statement

Corporate governance statement

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

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

Dear shareholder

It gives me great pleasure to take this opportunity to update you on our progress in corporate governance over the past year. We are not yet as compliant as we would wish, but as you know we have made progress during the year with the appointment of a new Chief Executive and we continue the search for appropriately qualified independent Non-Executive Directors in order to achieve a more balanced Board. We will continue to update the market with our progress in this area.

Yours sincerely

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.

Explanation for non-compliance with parts of the Code

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

As a result, the Company did not comply with the following provisions of the Code during the year ended 29 September 2012:

A.1.1 Matters reserved for the Board – While the Board understands which matters are reserved as matters for the Board, there is currently no formal schedule setting out these matters. The Company intends to put a formal schedule in place during FY 2013.

A.2.1 Division of responsibilities – As noted on page 29, whilst the search for a new Chief Executive was undertaken the Board did not comply with the requirement of the Code for the Chairman and Chief Executive roles to be assumed by different individuals. Bob Ivell has returned to his role as Non-Executive Chairman and the Board is now compliant with A.2.1 of the Code.

A.4.1 Senior Independent Director and A.4.2 and B.6.3 Chairman's performance appraisal – During the year, there were no independent Non-Executive Directors on the Board of the Company. As a result, the role of Senior Independent Director remained vacant and the Company did not comply with A.4.1 of the Code. In light of the fact that the Company had no Senior Independent Director, an annual appraisal of the Chairman's performance was not conducted. The Board is committed to seeking independent Non-Executive Directors for appointment and, once such appointments have been made, the Board intends to appoint a Senior Independent Director and conduct annual reviews of the Chairman's performance as required by the Code.

B.1 including B.1.2 Composition of the Board – The fact that there were no independent Non-Executive Directors on the Board during the year meant that the Board was unable to comply fully with the provisions of the Code relating to board composition and, in particular, the requirement for at least half of the Board to be independent.

B.2.1, C.3.1, D.2.1 and D.2.2 Constitution of Committees – The fact that there were no independent Non-Executive Directors on the Board during the year meant that the Nomination Committee, Audit Committee and Remuneration Committee were not constituted in accordance with, and could not meet, conduct business or undertake the actions provided for in, the Code during FY 2012. All committee matters were handled by the full Board.

B.6.2 Evaluation – As set out on page 31, an internal Board evaluation was carried out in respect of FY 2012.

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

The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 32 to 33. The information required by DTR 7.2 is set out in this corporate governance statement, other than that required under DTR 7.2.6 which is set out in the Directors' report on pages 24 to 26.

Board composition

A table listing all changes to the Board of Directors during the year is on page 29. On 8 October 2012, Alistair Darby was appointed as Chief Executive.

Board structure

The Board operates as set out below.

The Board

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

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

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

Attendance levels at Board meetings

	Board
Current Directors who served during the year	
Bob Ivell	10 (10)
Doug Evans[1]	10 (10)
Eddie Irwin[2]	6 (6)
Tim Jones	10 (10)
Douglas McMahon[3]	9 (10)
Ron Robson	10 (10)
Former Directors who served during the year	
Jeremy Blood	1 (1)

1 Appointed to the Board on 26 October 2011.
2 Appointed to the Board on 21 March 2012.
3 Douglas McMahon was unable to attend the Board meeting convened at short notice.

During FY 2012 there were nine scheduled Board meetings and one further Board meeting which was called at short notice. The table above shows attendance levels at the Board meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year. No committee meetings were held and consequently no Committee attendance data is included in this Annual report.

Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising direct with the Chairman. There are 10 Board meetings currently planned for FY 2013.

Directors

The following were Directors of the Company during the year ended 29 September 2012:

		Date appointed	Date of change of role
Current 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[2]	26/10/11	–
Doug Evans	Director	26/10/11	–
Eddie Irwin[3]	Non-Executive Director	21/03/12	–
Tim Jones	Finance Director	18/10/10	–
Douglas McMahon[4]	Non-Executive Director	15/10/10	–
Ron Robson[4]	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
		Date appointed	**Date ceased**
Former Directors who served during the year			
Jeremy Blood	Interim Chief Executive	15/03/11	26/10/11

1 Independent while in the role specified.
2 Subsequently appointed as Non-Executive Chairman on 12 November 2012.
3 Nominated shareholder representative of Elpida Limited.
4 Nominated shareholder representative of Piedmont Inc.

Details of the Executive Directors' service contracts are set out on page 37 and on the Company's website. The Chairman and the Non-Executive Directors have letters of appointment which are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

The provisions in the Articles concerning Directors' re-election are set out on page 24 of the Directors' report. All the Company's Directors will stand for re-election at the 2013 AGM in accordance with provision B.7.1 of the Code and their biographical details as at 26 November 2012 are set out on pages 22 and 23, including their main commitments outside the Company. Further information is below.

Chairman

Bob Ivell was Interim Chairman from 14 July 2011 to 26 October 2011. He was appointed Executive Chairman on 26 October 2011 following the departure of Jeremy Blood and reverted to the role of Non-Executive Chairman on 12 November 2012 following the completion of an induction period by Alistair Darby who was appointed Chief Executive on 8 October 2012. The Chairman ensures that appropriate communication is maintained with shareholders. He has responsibility for running the Board and for ensuring that all Directors are fully informed of matters relevant to their roles.

Chief Executive

Jeremy Blood was the Interim Chief Executive until his resignation on 26 October 2011. Bob Ivell assumed the duties of the Chief Executive from that date until the appointment of Alistair Darby on 8 October 2012, with a formal handover of responsibilities taking place on 12 November 2012 following completion of an induction period by Mr Darby. The Chief Executive has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

There has been no Senior Independent Director since 11 February 2011.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board. Bob Ivell was considered to be independent upon his appointment on 9 May 2011, in that he was free from any business or other relationship which could materially influence his judgement and he represented a strong source of advice and independent challenge. On his appointment as Interim Chairman on 14 July 2011 (and subsequently as Executive Chairman on 26 October 2011), as set out in the Code, the independence test was no longer appropriate to apply to his position.

Ron Robson and Douglas McMahon were appointed as representatives of the Company's largest shareholder, Piedmont Inc., and are therefore not regarded as independent in accordance with the Code.

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

There are currently no independent Non-Executive Directors on the Board.

Other than their fees which are disclosed on page 38, the Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Board will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

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

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

Throughout the financial year 2012 the business which would normally be considered by committees was considered by the Board as a whole.

Audit Committee
Details of the Audit Committee are included in the Audit Committee report on pages 32 and 33 and are incorporated by reference into this Statement.

Remuneration Committee
Details of the Remuneration Committee are included in the Report on Directors' remuneration on pages 34 to 40 and are incorporated by reference into this Statement.

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

During the year, the Company did not comply with provision B.2.1 of the Code in respect of a Nomination Committee consisting of a majority of independent Non-Executive Directors. As the Nomination Committee was not fully constituted, no meetings were held and its role was taken on by the full Board, so that there was at all times a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Directors did not attend the relevant meetings where their new roles were being discussed.

The Board considered Bob Ivell's appointment as Executive Chairman and subsequently Non-Executive Chairman, taking into account his other external commitments none of which were regarded as significant. The Board also considered the appointment of Alistair Darby as Chief Executive. Where a Director was unable to attend a meeting he was provided with all the papers and information relating to that meeting and was able to discuss issues arising direct with the Chairman and the Company Secretary.

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

Executive Committee
The Executive Committee, which is chaired by the Chief Executive (previously by the Chairman), consists of the Executive Directors and certain other senior executives, namely Robin Young (Operations Director), Gary John (Property Director), Susan Martindale (HR Director) and Simon Cope (Marketing Director).

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

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

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

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

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

The 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 is inappropriate to raise with their line manager. All whistleblowing allegations are reported to and considered by the Executive Committee and Board.

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

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

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

- An overall governance framework including:

  i. clearly defined delegation of authority and reporting lines;
  ii. a comprehensive set of policies and procedures that employees are required to follow; and
  iii. the Group's Code of Ethics, in respect of which an annual confirmation of compliance is obtained from all corporate employees.

- Processes, including monitoring by the Board, in respect of:

  i. 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 evolve brands and formats to ensure that they continue to be appealing and relevant.

- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board and Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met three times during FY 2012, is chaired by the Company Secretary & General Counsel and comprises Executive Committee members and other members of senior management from a cross section of functions. Its primary responsibilities are to:

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

The Group risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 18 to 20.

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

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 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 Principles, as appropriate.

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

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

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company formally updates the market on its financial performance at least five times a year, at the half year and full year results in May and November respectively, the interim management statements in January and July and a pre-close trading update in September. The content of these updates is posted and webcast on the Company's website, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of meetings with its larger shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. On a more informal basis, the Chairman 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.

The AGM provides a useful interface with shareholders, many of whom are also customers. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated.

Board effectiveness evaluation

An evaluation was conducted by the Company Secretary on behalf of the Board in respect of FY 2012, involving the use of questionnaires and discussion. The evaluation covered three areas, first the Chairman, secondly the Board as a whole and thirdly audit-related activities.

Going concern

The Directors' statement as to going concern can be found on page 26.

Audit Committee report

The Audit Committee's responsibilities include:

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

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

Explanation for non-compliance with parts of the UK Corporate Governance Code (the 'Code')
The reasons for non-compliance with certain parts of the Code are set out below:

Provision C.3.1
(constitution of the Audit Committee)
- There were not at least three independent Non-Executive Directors on the Committee in FY2012;
- The Company Chairman was a member of the Committee in FY2012;
- The Committee included two members who were not considered independent in FY2012; and
- The current Committee Chairman (appointed 19 August 2011) is not considered independent in accordance with the Code.

The Company complied with the remaining Code provisions which impact the Audit Committee throughout the year ended 29 September 2012.

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

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

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

Throughout the financial year 2012 the business which would normally be considered by the Committee was considered by the Board as a whole.

Role of the Audit Committee
The Committee's principal responsibilities are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external auditor 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 external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all corporate employees which is consistent with the Company's overall statement of business ethics.

Audit Committee frequency
The Committee normally meets at least four times a year. As outlined in the Corporate Governance statement, the full Board reviewed audit matters at four meetings during FY2012.

Audit matters process
Audit matters are reviewed at quarterly Board meetings throughout the year at which detailed reports are presented for review. The Board commissions reports from external advisers, the Director of Group Assurance, or Company management, either after consideration of the Company's major risks or in response to developing issues.

During the year, the Board considered the following matters:

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

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

The pre-approved services may be summarised as follows:

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

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

- forensic investigation work into the affairs of the Group where there is the possibility of an accounting error or control breach in a period that has been reported on by the External Auditor;
- audit of the Group's Pension schemes;
- design of executive remuneration policy and incentive schemes, and recruitment services in respect of key management positions;
- tax planning assignments where the success of the tax scheme is reliant on the Group changing, or adopting, a specific accounting policy;
- bookkeeping or other services related to the accounting records or financial statements of the Group;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services
- legal services and expert services which may have an impact on the Company's financial performance or result in the auditor acting on behalf of the Company; and
- details regarding non-audit work are set out in note 4 to the financial statements on page 54.

Deloitte LLP were appointed as external auditors in 2011 following a formal tender process. The Board has considered the new guidance in relation to auditor rotation including the proposed transition rules which will be considered when recommending the reappointment of the External Auditor in future years. Following their appointment as External Auditor, Deloitte LLP were replaced in respect of the provision of internal audit services by PricewaterhouseCoopers LLP.

Approved by the Board

Ron Robson
Chairman of the Audit Committee
26 November 2012

Report on Directors' remuneration

The Remuneration Committee's responsibilities include:

- Determining the framework for executive remuneration
- Ensuring that remuneration is aligned with shareholder interests and supports the Company's strategic plan
- Maintaining positive dialogue with investors on remuneration matters
- Ensuring that the remuneration structure supports the attraction, retention and motivation of executives with an appropriate level of skill and experience to improve the Company's performance

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In the year under review the business of the Remuneration Committee (the 'Committee') has been considered by the Board.

The proposed changes in respect of executive remuneration disclosure and governance are being monitored and the Company will comply when required to do so.

This report has been prepared on behalf of the Board and has been approved by the Board. The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the 2010 UK Corporate Governance Code (the 'Code') and the Financial Services Authority Listing Rules. Throughout this report, references to the year are to the 53 week period ended 29 September 2012. A resolution to approve this report will be proposed at the Annual General Meeting ('AGM').

Explanation for non-compliance with parts of the Code

Provision D.2.1 and D.2.2 of the Code were not complied with because the matters to be determined by the Committee were determined by the Board as a whole.

UNAUDITED INFORMATION

Remuneration Committee

The Committee's terms of reference are available on the Company's website at www.mbplc.com/investors and on request. Throughout the financial year 2012 the business which would normally be considered by the Committee was considered by the Board as a whole.

The Committee consults with the Chairman and/or the Chief Executive (except where conflicted) to set the remuneration policy and determines the individual remuneration package for each Executive Director and the Chairman. The terms of Bob Ivell's appointment as Executive Chairman were determined by the Board. The Committee considers the level and structure of remuneration for senior employees below the Board and has oversight of remuneration and terms of employment across the Company. In addition, the Committee makes recommendations to the Board on any new long-term incentive plans, but such plans are approved by the Board as a whole and, where necessary, by shareholders.

Members of management including the Group HR Director and 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 Chairman does not attend Board or Committee meetings when his remuneration is under review. Tim Jones and Doug Evans were present at meetings where the Company's share schemes were under review. However, each declared an interest in the matters under review and did not participate in the discussion.

During the year, issues considered included the review and approval of all awards made under the Company's share plans; a comprehensive review of incentive schemes and the determination of the appointment arrangements for Doug Evans and Alistair Darby.

The Committee received external advice from PricewaterhouseCoopers LLP ('PWC') its independently appointed advisers. In addition, advice was received from the Hay Group and from Towers Watson. Advice was also received from the Company's general legal advisers, Freshfields Bruckhaus Deringer LLP. During FY 2012 PWC has also provided tax services and advice to the Company.

Remuneration policy

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

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

The main elements of the remuneration package in 2012 and anticipated for 2013 are:

- base pay and benefits;
- annual bonus of which at least 50% is, at the discretion of the Committee, deferred into Company shares under the Mitchells & Butlers Short Term Deferred Incentive Plan (the 'STDIP'), details of which are set out on page 35; and
- a defined contribution pension, or cash allowance.

Executive Directors and senior managers appointed prior to 29 July 2012 were also eligible to participate in the Mitchells & Butlers Long Term Incentive Plan 2010 (the 'LTIP'), details of which are set out on page 36. The LTIP was intended to operate only once. In order to provide Executive Directors and senior managers with a long-term incentive arrangement from the commencement of FY 2013 it is proposed that a new long-term incentive plan will be put in place, subject to shareholder approval at the forthcoming AGM. Details of the proposed terms of the new plan are set out on page 36.

The Committee is satisfied that there is an appropriate balance of fixed and variable pay and that whilst variable pay targets are demanding, the arrangements are unlikely to result in executives taking inappropriate levels of risk.

The Committee is satisfied that the remuneration policy supports the Company's business strategy of growing long-term shareholder value.

Overview of Executive Directors' remuneration

The table below summarises the key elements of Executive Directors' remuneration as they are intended to apply in FY 2013.

Element	Purpose	Delivery	Summary details
Salary	Provides a sound basis on which to attract and retain executives. To reflect the market value of the role and individual performance.	Payable in cash, four weekly throughout the year. Pensionable.	Reviewed annually, with any increases normally effective from 1 January.
Annual Performance Bonus (cash)	Provides a direct link between business performance and reward.	Up to 50% of the annual performance bonus is payable in cash, normally in December each year. Non pensionable.	Earnings potential up to a maximum of 100% of base salary, of which 100% (2012 100%) is based on the adjusted earnings per share (EPS) performance (2012 EPS) of the Group.
Deferred Share Award ('STDIP')	To align annual performance with shareholder value and provide an element of retention.	At least 50% of the annual performance bonus will normally be awarded as a deferred bonus share award. Non pensionable.	At the discretion of the Committee, at least 50% of the annual bonus will normally be deferred and released in two equal amounts 12 and 24 months after deferral. Dividend accrued shares may be awarded on vested shares.
Performance Restricted Share Plan ('2013 PRSP')*	To reward achievement of key performance measures aligned to Company strategy and provide an element of retention.	Discretionary annual award of nominal cost options up to 200% of salary. Non pensionable.	EPS and Relative Total Shareholder Return (TSR) measures over a three-year performance period will determine the number of options under award which vest. Dividend accrued shares may be awarded on vested options.
Pension (or cash allowance)	To provide a market-competitive retirement benefit.	Deferred cash (i.e. pension) or cash allowance.	Contributory defined contribution scheme or cash allowance in lieu of Company pension contributions once statutory limits are reached.
Other benefits	To provide market-competitive benefits.	Benefits in kind or cash allowance. Non pensionable.	Benefits include private medical insurance, life assurance and use of a Company owned vehicle or cash equivalent.

* Subject to shareholder approval at the January 2013 AGM, it is proposed that the 2013 PRSP replaces the LTIP.

Base salary and benefits

When setting base salary the Committee takes account of a range of factors including market conditions, Company performance, pay in relevant comparator organisations and pay increases across the Group, as well as individual contribution.

Following an increase in salary in October 2011 (from £375,000 to £400,000), Tim Jones' salary is next due to be reviewed in January 2013.

Doug Evans was appointed to the Board in October 2011. His salary on appointment was £250,000.

In addition to base salary, Executive Directors also receive benefits in kind which comprise private healthcare, life assurance and the use of a Company owned vehicle or cash allowance.

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

The Committee sets performance conditions each year to determine the amount of bonus payable to Executive Directors under the annual bonus plan. In FY 2012 the maximum bonus payable is 100% of salary (2011 100%). Bonus payments are not pensionable.

Performance conditions in FY 2012 are based wholly on the achievement of EPS which measures growth in shareholder value underpinned by improved Company financial performance.

In FY 2012 bonus is payable on a straight line basis between threshold, target and maximum as follows:

Bonus payable

	Threshold	Target	Maximum
Performance achieved	98.5% of target	100% of target	110% of target
% of base salary payable	10%	50%	100%

Report on Directors' remuneration

continued

The threshold performance target was not met and no bonus is payable in respect of FY 2012.

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

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

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

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

Long term incentives

Long Term Incentive Plan 2010 ('LTIP')

The LTIP was approved by shareholders on 29 July 2010. No awards under the LTIP were made to Executive Directors in FY 2012. Details of awards made prior to that date are set out on page 39. For an award to vest the base market capitalisation of the Company must grow, over the three-year performance period, by at least 10% per annum (the 'Hurdle Amount'). The Hurdle Amount will be adjusted downwards to take account of any dividends paid over the performance period. If the market capitalisation does not exceed the Hurdle Amount at the end of the performance period, awards will lapse. The Hurdle Amount based on the market capitalisation at the date awards were granted, was £1,622m. The market capitalisation at the end of the performance period will be calculated using the average share price for the three months prior to 29 July 2013.

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

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

Although to the extent that the LTIP vests, settlement will be in shares, it is not possible to identify the number of shares in which each participant will have an interest until the end of the performance period in November 2013.

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

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

Awards under the LTIP are not pensionable.

Whilst the LTIP remains operational the Directors believe that it is unlikely that the performance condition will be achieved.

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

Performance Restricted Share Plan ('PRSP')

The terms of the existing PRSP (under which there are no outstanding awards to Directors) were approved by shareholders in April 2003. A new PRSP ('2013 PRSP') is proposed to be introduced on generally similar terms.

The 2013 PRSP provides for an award of nominal cost options with a value of up to 300% (200% for an Executive Director) of a participant's basic annual salary.

The vesting of options under the proposed 2013 PRSP is dependent on the achievement of performance conditions over a three-year period. Within the limits set out above, award levels for Executive Directors and senior management are determined each year by the Committee. It is intended that awards for the 2013 financial year will be set at 200% for the Chief Executive and a maximum of 140% for other Executive Directors. The maximum award for other members of senior management will be set at 90%. Awards under the 2013 PRSP are not pensionable.

Subject to shareholder approval of the 2013 PRSP, the Board intends to make a grant in February 2013. The proposed performance measures for this grant are:

- 50% based on growth in absolute Earnings Per Share (measured before exceptional items and other adjustments) (EPS); and
- 50% based on relative Total Shareholder Return (TSR).

EPS has been chosen as it is a measure of overall profitability of the business for investors over the long term and therefore is a fundamental aspect of aligning shareholders' interests with those of executives.

TSR has been chosen as relative TSR performance provides a further measure of long-term success of the Company.

All eligible employees, including Executive Directors and other Executive Committee members who are also participants in the LTIP, will be required to cancel, without payment, their entitlement to any award under the LTIP in order to receive a grant under the 2013 PRSP in February 2013.

Full details of the proposed performance measures are set out in the AGM notice.

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

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

Sharesave: All eligible employees, including Executive Directors, can save between £5 and £250 per month over a three or five year maturity period. The proceeds from their savings contract may be used to acquire shares in the Company at an option exercise price fixed at the date of invitation. Performance targets do not apply to Sharesave. A grant under the Sharesave scheme was made in June 2012. Executive Directors' entitlements under the Sharesave scheme are set out on page 40.

Share Incentive Plan: All eligible employees, including Executive Directors, are invited to participate. A free share award under the Share Incentive Plan was made in June 2012. Free shares are typically held in trust for a period of at least three years. Performance targets do not apply to the Share Incentive Plan. Executive Directors' entitlements under the Share Incentive Plan are set out on page 40.

In addition to the free share award, eligible employees, including Executive Directors, have from October 2012 had the opportunity to invest up to £1,500 per tax year of pre-tax earnings to buy shares in the Company under a regular monthly share purchase plan. Shares so purchased are held in trust on behalf of participants. The shares can be released from the trust to participants at any time, but income tax and national insurance contributions are payable on their value should they be released within five years of their purchase date.

Shareholding guidelines
It is Company policy that Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required to satisfy the mandatory shareholding requirement, being one times base salary, has been satisfied. Directors' shareholdings are set out on page 40.

Pension (or cash allowance)
Tim Jones and Doug Evans participate in the defined contribution section of the Mitchells & Butlers Executive Pension Plan (the 'Plan'). Under the Plan, Executive Directors' contributions of up to 5% of salary are matched on a four times basis by the Company.

As an alternative to the Company's contribution to the Plan a member who has aggregate pension savings at or above £1.5m, the 2012/13 Lifetime Allowance threshold, may elect to receive a cash allowance equivalent to the net cost to the Company of the contribution which would otherwise have been made to the Plan. Neither Mr Jones nor Mr Evans is in receipt of such an allowance.

A member whose combined (employee and Company) contributions to the Plan would otherwise be in excess of the £50,000 Annual Allowance may elect to receive a cash allowance equivalent to the net cost to the Company of any excess.

Both Tim Jones and Doug Evans participate in the Company's 'NICwise' pension arrangement. NICwise is a salary sacrifice scheme which provides Plan members with an option for their member contributions to be paid by the Company in return for an equal reduction in base pay. The scheme provides the Company with a saving equivalent to the employer's national insurance contributions on the amount sacrificed. Any reference to Directors' contributions in this report includes the amount that would have been contributed but for their participation in NICwise.

The Plan provides for a normal pension age of 60 and in the event of death there is life assurance cover of up to six times salary. The Plan also provides for full and partial incapacity benefit where the member is unable to continue in employment due to ill health. Active members of the Plan have the option to pay additional voluntary contributions.

Executive Directors' contracts
Executive Directors are employed under a service contract that may be terminated by the Company at any time on one year's notice. Any payments made in lieu of notice will, for new appointments after the commencement of the 2011 financial year, normally comprise base salary only and will be payable in equal instalments until the expiry of the notice period or, if earlier, the date on which alternative employment is secured. This arrangement applies to Doug Evans. Any payments in lieu of notice in respect of Tim Jones whose appointment pre-dated the current policy, will comprise base salary and contractual benefits.

Details of the service contracts of Executive Directors who served during FY 2012 are set out below.

Executive Directors' contracts

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Tim Jones	18/10/10	Indefinite	12 months	6 months	No
Doug Evans	26/10/11[a]	to 31/01/13[b]	12 months	6 months	No

a. Replaced original contract of 17 January 2011.
b. Mr. Evans will leave the employment of the Group on 31 January 2013.

Report on Directors' remuneration

continued

Executive Directors may accept one external non-executive appointment with the Company's prior approval as long as this is not likely to lead to conflict. Fees received may be retained by the Executive Director. No such non-executive appointments have applied in the year to 29 September 2012.

Alistair Darby's appointment as Chief Executive commenced on 8 October 2012. Mr Darby's base salary on appointment has been set at £525,000 per year. Mr Darby's contract is consistent with the terms set out above and the payment in lieu of notice policy applicable to new appointments after the commencement of the 2011 financial year.

Chairman

Bob Ivell was appointed as Executive Chairman on 26 October 2011. This appointment was terminable by either party on one month's notice. Mr Ivell's remuneration was £600,000 per year. Following the completion of Alistair Darby's induction period, on 12 November 2012, Mr Ivell resumed the role of Non-Executive Chairman on the same terms as applied prior to his taking up the Executive Chairman role, being, a fee of £275,000 per year, terminable by either party at any time, without notice and without compensation.

Deputy Chairman

Ron Robson has served as Deputy Chairman since 14 July 2011. In this role Mr Robson's fee is £200,000 per year.

Non-Executive Directors

Non-Executive Directors do not have service contracts but serve under a letter of appointment which provides that they are initially appointed until the next AGM when they are required to stand for election. In line with requirement B.7.1 of the Code, all Directors, including Non-Executive Directors, will stand for re-election at the 2013 AGM. 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 are set out on page 29.

Copies of the individual letters of appointment are available at the Registered Office of the Company during normal business hours and will be available to shareholders to view at the 2013 AGM.

Douglas McMahon and Ron Robson were appointed to the Board under the Piedmont Deed of Appointment details of which are summarised on page 24.

Subsequent to the reporting year end Richard McGuire was appointed to the Board as Douglas McMahon's alternate. No fee is payable to Mr McGuire in respect of this appointment.

The remuneration of the Non-Executive Directors is decided by the Board. Non-Executive Directors' fees are typically reviewed in January of each year. No increase was applied in January 2012. Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans.

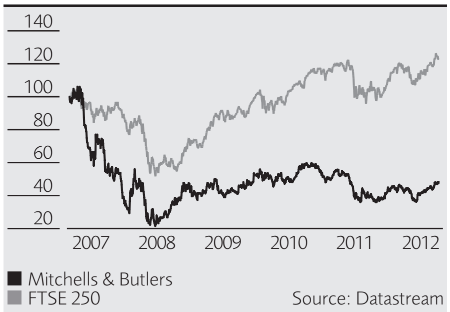
The current fee structure applicable to the Non-Executive Directors is set out below.

TSR performance graph

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

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

Total shareholder return from 21 September 2007 to 29 September 2012*
(rebased to 100)



* As the year ended 29 September 2012 is a 53 week year the TSR performance period is 5 years and 1 week.

Non-Executive Directors' fee level and structure

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

* Not applicable to Nomination Committee. The Committee member fee is payable in addition to the Committee chairman fee. No Committee membership or chairman fee has been paid in respect of service in financial year 2012.

Supplementary information on Directors' remuneration

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

Directors' remuneration

	Basic salaries and fees £000	Annual performance bonus £000	Cash allowance in lieu of contribution to the pension plan £000	Benefits[a] £000	Payments in connection with the termination of employment £000	2012 53 weeks £000	2012 52 weeks £000	2011 52 weeks* £000
Executive Directors								
Tim Jones	404	–	44	14	–	462	454	438
Doug Evans[b]	233	–	10	17	–	260	255	–
Non-Executive Directors								
Bob Ivell[c]	582	–	–	–	–	582	571	66
Ron Robson	203	–	–	76[d]	–	279	273	76
Eddie Irwin[e]	27	–	–	–	–	27	26	–
Douglas McMahon	51	–	–	–	–	51	50	44
Former Director								
Jeremy Blood[f]	86	–	–	–	–	86	86	423
Other[g]	–	–	–	–	–	–		1,425
Total reporting year	1,586	–	54	107	–	1,747	1,715	–
Total prior year	1,488	216	85	27	656	–	–	2,472

* Or from date of appointment to the Board if this was on or after 26 September 2010.

a. Benefits incorporate the value of all tax assessable benefits arising from employment with the Company, which primarily relate to the provision of a Company car, or car allowance, and private healthcare.
b. Doug Evans was appointed to the Board on 26 October 2011.
c. Bob Ivell was appointed as Executive Chairman on 26 October 2011.
d. Benefits relate to the reimbursement of taxable expenses and the provision of serviced accommodation; the current year total includes £7,716 in respect of expenses incurred but unclaimed in the financial year ended 24 September 2011.
e. Eddie Irwin was appointed as a non-independent Non-Executive Director on 21 March 2012.
f. Jeremy Blood retired from the Board on 26 October 2011.
g. In respect of Directors who retired from the Board during financial year 2011.

Long Term Incentive Plan

The table below sets out details of awards made in respect of the LTIP. The performance conditions relating to the award and the basis of the calculation of the LTIP pool are set out on page 36.

	End of year to which performance is based for award	Maximum LTIP share awards held at 24/09/11	Awarded	Award date	Market price at award (p)	Performance condition determination date	Actual/ planned vesting date	Maximum LTIP share awards held at 29/09/12
Tim Jones	2013	nil	a	29/11/10	345.6	29/07/13	b	a
Doug Evans[c]	2013	nil	a	17/01/11	351.4	29/07/13	b	a

a. The participation percentage of the LTIP pool in respect of Tim Jones is 4.64% and in respect of Doug Evans it is 3.38%.
b. 50% of the LTIP pool vests in November 2013, 25% vests on the first anniversary of the first vesting date and the remaining 25% vests on the second anniversary of the first vesting date. Unless determined otherwise by the Committee, vesting is generally dependent on the employee being in service with the Company on the vesting date.
c. Mr Evans' entitlement will lapse when he leaves the employment of the Group on 31 January 2013.

The base market capitalisation for the LTIP is £1,218,409,407 and the Hurdle Amount is currently £1,621,702,921. The market capitalisation at the 2012 financial year end was £1,194m.

The LTIP pool is capped at £100m. Any excess over this amount is only payable subject to the discretion of the Committee.

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

Report on Directors' remuneration

continued

Directors' share options

The table below shows Directors' share options granted under the Sharesave Plan.

	Date of grant	Opening balance 25/09/11[a]	Granted during period	Vested during period	Exercised during period	Lapsed during period	Closing balance at 29/09/12	Option price (p)	Market share price on date of exercise	Earliest exercise date	Last expiry date
		Ordinary shares under option									
Tim Jones	20/06/12	–	4,945	–	–	–	4,945	182.0	–	01/10/15	31/03/16
Doug Evans	20/06/12	–	8,241	–	–	–	8,241	182.0	–	01/10/17	31/03/18
Total			**13,186**				**13,186**				

a. Or date of appointment if later.

Share Incentive Plan

As at 29 September 2012, the Executive Directors had the following entitlements under the Free Share element of the all-employee Share Incentive Plan.

	Shares held at 25/09/11[a]	Shares awarded during the year 25/09/11 to 29/09/12	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Shares held at 29/09/12
Tim Jones	–	1,204	20/06/12	249.3	20/06/15	–	1,204
Doug Evans	–	769	20/06/12	249.3	20/06/15	–	769
Total		**1,973**					**1,973**

a. Or date of appointment if later.

Under the Partnership Share element of the Share Incentive Plan the Executive Directors have acquired the following interests in shares of the Company between the end of the financial year and one month prior to the Notice of the Annual General Meeting.

- Tim Jones 70 shares
- Doug Evans 70 shares

Directors' Pension Benefits

	Company contribution (£)	
Tim Jones	30,725 (2011 50,406)	In addition Mr Jones received a cash allowance of £44,036 (2011 £17,695)
Doug Evans	35,080	In addition Mr Evans received a cash allowance of £10,208

Directors' shareholdings

Executive Directors	29/09/12	24/09/11[a]	Non-Executive Directors	29/09/12	24/09/11[a]
	Ordinary shares of $8^{13}/_{24}$p				
Tim Jones	4,704	3,500	Bob Ivell	–	–
Doug Evans	769	–	Ron Robson	–	–
			Eddie Irwin	–	–
			Douglas McMahon	–	–

a. Or date of appointment if later.

Based on the share price on 29 September 2012 of 291.3p, Tim Jones' shareholding was 0.03 (2011 0.02) times his salary and Doug Evans' shareholding was 0.01 times his salary.

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

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

The market price per share on 29 September 2012 was 291.3p and the range during the year to 29 September 2012 was 215.6p to 291.3p per share.

The Executive Directors as a group beneficially own less than 0.0014% of the Company's shares.

Approved by the Board

Bob Ivell
Chairman of the Remuneration Committee
26 November 2012

FINANCIAL STATEMENTS

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In this section

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

We have audited the Group financial statements of Mitchells & Butlers plc for the 53 weeks ended 29 September 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Cash Flow Statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 29 September 2012 and of its profit for the 53 weeks then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, contained within page 26, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the 53 weeks ended 29 September 2012 and on the information in the Report on Directors' remuneration that is described as having been audited.

Stephen Griggs
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
London, UK
26 November 2012

Group income statement

For the 53 weeks ended 29 September 2012

		2012 53 weeks			2011 52 weeks		
	Notes	Before exceptional items and other adjustments £m	Exceptional items and other adjustments[a] £m	Total £m	Before exceptional items and other adjustments £m	Exceptional items and other adjustments[a] £m	Total £m
Revenue	2	1,889	–	1,889	1,796	–	1,796
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3, 8	(1,474)	(20)	(1,494)	(1,392)	(13)	(1,405)
Net profit/(loss) arising on property disposals	8	–	–	–	–	(4)	(4)
EBITDA[b]		415	(20)	395	404	(17)	387
Depreciation, amortisation, movements in the valuation of the property portfolio and impairment of goodwill	3, 8	(111)	(52)	(163)	(110)	(2)	(112)
Operating profit/(loss)	2	304	(72)	232	294	(19)	275
Finance costs	9	(140)	–	(140)	(141)	–	(141)
Finance revenue	9	2	–	2	3	–	3
Net finance charge from pensions	7, 8, 9	–	(11)	(11)	–	(5)	(5)
Profit/(loss) before tax		166	(83)	83	156	(24)	132
Tax (expense)/credit	8, 10	(41)	28	(13)	(42)	35	(7)
Profit for the period		125	(55)	70	114	11	125
Earnings per ordinary share							
Basic	11	30.5p		17.1p	28.0p		30.7p
Diluted	11	30.2p		17.0p	27.7p		30.5p

a. Exceptional items and other adjustments are explained in note 1 and analysed in note 8.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

The notes on pages 48 to 75 form an integral part of these financial statements.

All results relate to continuing operations.

Group statement of comprehensive income

For the 53 weeks ended 29 September 2012

	Notes	2012 53 weeks £m	2011 52 weeks £m
Profit for the period		70	125
Other comprehensive (expense)/income:			
Unrealised gain on revaluation of the property portfolio	13	10	73
Actuarial (losses)/gains on defined benefit pension schemes	7	(81)	84
Exchange differences on translation of foreign operations		(1)	–
Cash flow hedges:			
– Losses arising during the period	18	(103)	(118)
– Reclassification adjustments for losses included in profit or loss	18	54	37
Other comprehensive (expense)/income		(121)	76
Tax credit/(charge) relating to items of other comprehensive (expense)/income	10	49	(9)
Other comprehensive (expense)/income after tax		(72)	67
Total comprehensive (expense)/income for the period		(2)	192

The notes on pages 48 to 75 form an integral part of these financial statements.

Group balance sheet

29 September 2012

	Notes	2012 £m	2011 £m
Assets			
Goodwill and other intangible assets	12	5	10
Property, plant and equipment	13	3,848	3,848
Lease premiums		1	6
Deferred tax asset	19	107	83
Derivative financial instruments	18	4	18
Total non-current assets		3,965	3,965
Inventories	14	26	25
Trade and other receivables	15	56	70
Other cash deposits	25	25	50
Cash and cash equivalents	25	311	306
Total current assets		418	451
Total assets		4,383	4,416
Liabilities			
Current tax liabilities		(28)	(17)
Trade and other payables	16	(265)	(298)
Borrowings	17	(53)	(49)
Derivative financial instruments	18	(45)	(44)
Total current liabilities		(391)	(408)
Pension liabilities	7	(88)	(37)
Other payables	16	(12)	(12)
Borrowings	17	(2,133)	(2,197)
Derivative financial instruments	18	(280)	(235)
Deferred tax liabilities	19	(382)	(429)
Long-term provisions	20	(9)	(6)
Total non-current liabilities		(2,904)	(2,916)
Total liabilities		(3,295)	(3,324)
Net assets		1,088	1,092
Equity			
Called up share capital	21, 23	35	35
Share premium account	23	21	21
Capital redemption reserve	23	3	3
Revaluation reserve	23	793	768
Own shares held	23	(3)	(5)
Hedging reserve	23	(257)	(214)
Translation reserve	23	11	12
Retained earnings	23	485	472
Total equity		1,088	1,092

The notes on pages 48 to 75 form an integral part of these financial statements.

Signed on behalf of the Board on 26 November 2012

Bob Ivell
Tim Jones

Group statement of changes in equity

For the 53 weeks ended 29 September 2012

	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 25 September 2010	35	20	3	747	(8)	(149)	12	234	894
Profit for the period	–	–	–	–	–	–	–	125	125
Other comprehensive income/(expense)	–	–	–	89	–	(65)	–	43	67
Total comprehensive income/(expense)	–	–	–	89	–	(65)	–	168	192
Share capital issued	–	1	–	–	–	–	–	–	1
Release of own shares	–	–	–	–	3	–	–	(2)	1
Credit in respect of share-based payments	–	–	–	–	–	–	–	6	6
Revaluation reserve realised on disposal of properties	–	–	–	(68)	–	–	–	68	–
Tax on share-based payments	–	–	–	–	–	–	–	(2)	(2)
At 24 September 2011	35	21	3	768	(5)	(214)	12	472	1,092
Profit for the period	–	–	–	–	–	–	–	70	70
Other comprehensive income/(expense)	–	–	–	25	–	(43)	(1)	(53)	(72)
Total comprehensive income/(expense)	–	–	–	25	–	(43)	(1)	17	(2)
Purchase of own shares	–		–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	3	–	–	(2)	1
Charge in respect of share-based payments	–	–	–	–	–	–	–	(1)	(1)
Tax on share-based payments	–	–	–	–	–	–	–	(1)	(1)
At 29 September 2012	35	21	3	793	(3)	(257)	11	485	1,088

Group cash flow statement

For the 53 weeks ended 29 September 2012

	Notes	2012 53 weeks £m	2011 52 weeks £m
Cash flow from operations	24	347	336
Cash flow from operating exceptional items		(17)	–
Interest paid		(131)	(137)
Interest received		2	3
Tax paid		(25)	(20)
Net cash from operating activities		176	182
Investing activities			
Acquisition of Ha Ha Bar & Grill Limited		–	(20)
Acquisition of Intertain (Dining) Limited		–	(4)
Purchases of property, plant and equipment		(147)	(144)
Purchases of intangibles (computer software)		–	(4)
Proceeds from sale of property, plant and equipment		3	28
Proceeds from disposal of assets held for sale		–	396
Transfers from/(to) other cash deposits		25	(50)
Net cash (used in)/from investing activities		(119)	202
Financing activities			
Issue of ordinary share capital		–	1
Purchase of own shares		(1)	–
Proceeds on release of own shares		1	1
Repayment of principal in respect of securitised debt	17	(52)	(49)
Repayment of principal in respect of other borrowings		–	(259)
Net cash used in financing activities		(52)	(306)
Net increase in cash and cash equivalents		5	78
Cash and cash equivalents at the beginning of the financial period		306	228
Cash and cash equivalents at the end of the financial period		311	306

Cash and cash equivalents are defined in note 1.

The notes on pages 48 to 75 form an integral part of these financial statements.

Notes to the financial statements

For the 53 weeks ended 29 September 2012

1. General information

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

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

Mitchells & Butlers plc, along with its subsidiaries, (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 financial statements have been prepared on the historical cost basis, except for the revaluation of properties and financial instruments.

The Group revalues the majority of its freehold and long leasehold properties to fair value, for accounting purposes, which it reviews at least annually. Short leasehold properties, unlicensed properties, fixtures and fittings are held at cost, less depreciation and impairment provisions. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

The Group's accounting policies have been applied consistently.

Basis of preparation

The Group's accounting reference date is 30 September. The Group draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. As a result, the financial year ending 29 September 2012 includes 53 trading weeks.

Critical accounting judgements and estimates

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

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. The Group's critical accounting judgements and estimates are in respect of property, plant and equipment; asset impairments; exceptional items and other adjustments; pensions; and taxation. Details of these judgements and estimates are set out in the relevant accounting policy and detailed note to the financial statements as set out below:

- property, plant and equipment – assumptions are made in the valuation of properties in relation to fair maintainable trading levels and the property market. Assumptions are also made regarding assets' useful lives and residual value in relation to plant and equipment (see accounting policy on property, plant and equipment and note 13);
- asset impairments – assumptions are made in relation to the value in use calculation, including projected cash flows, future growth rates and the appropriate discount rate to apply to these (see accounting policies on property, plant and equipment and goodwill);
- exceptional items and other adjustments – determination of items which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group (see accounting policy on adjusted profit and note 8);
- pensions – actuarial assumptions in respect of the defined benefit pension scheme liability include judgements in relation to long-term interest rates, inflation, investment returns and longevity of current and future pensioners (see accounting policy on pension obligations and note 7); and
- taxation – assessing the outcome of uncertain tax positions requires judgements to be made in relation to the likely outcome of negotiations with and enquiries from tax authorities and in some cases an assessment of the likely outcome of other case law (see accounting policy on tax and notes 10, 16 and 19).

Basis of consolidation

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

The results of subsidiaries acquired during the year 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 Overview and Financial review on pages 1 to 20. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the review.

In addition, note 18 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 17 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.

Business combinations

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

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

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

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

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

Intangible assets

Goodwill

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

Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves and is not included in determining any subsequent 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 ten years with the majority being five years.

Property, plant and equipment

The Group revalues the majority of its freehold and long leasehold licensed properties to fair value, for accounting purposes. Short leasehold properties, unlicensed properties, fixtures and fittings are held at deemed cost less depreciation and impairment provisions.

Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The revaluation is a significant accounting judgement. Valuation multiples are determined via third party inspection of 20% of the sites such that all sites are individually valued approximately every five years. Key accounting judgements are also made in determining fair maintainable trade. The Directors believe that their estimates, which are based on the current state of the UK property market, are appropriate. Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of items of property, plant and equipment. Freehold land is not depreciated. Freehold and long leasehold properties are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold properties is reviewed at least annually. Leasehold properties are depreciated over the unexpired term of the lease where this is less than 50 years. The cost less residual value based on prices prevailing at the balance sheet date of plant, machinery, fixtures and fittings and equipment is spread by equal instalments over the estimated life of the relevant assets, namely:

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

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

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

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

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

Operating leases

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

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

The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

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

Notes to the financial statements

For the 53 weeks ended 29 September 2012 continued

1. General information continued

Inventories

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

Financial instruments

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

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 time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Derecognition of financial assets and liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as current asset investments. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts that are repayable on demand and that are integral to the Group's cash management.

Trade and other payables

Trade and other payables are recognised at original cost.

Borrowings

Borrowings, which include the Group's secured loan notes, are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method.

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 are met. Derivative financial instruments are not used for trading or speculative purposes.

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

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

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

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

Equity instruments

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

Foreign currencies

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

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

Revenue

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

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

Operating profit

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

Tax

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

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

Assessing the outcome of uncertain tax positions requires judgements to be made in relation to the likely outcome of negotiations with and enquiries from tax authorities and in some cases e.g. recoverability of VAT on gaming machines (refer to note 16), an assessment of the likely outcome of other case law.

Pension obligations

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

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

There is no current service cost as all defined benefit schemes are closed to future accrual. The interest cost and the expected return on assets are shown as a net amount within finance income or finance expense. Actuarial gains and losses are recognised in full in the period in which they occur, in the statement of comprehensive income, rather than the income statement. Curtailments and settlements relating to the Group's defined benefit plan are recognised in the income statement in the period in which the curtailment or settlement occurs.

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

Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the employment of the Group. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

1. General information continued

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

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured using the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

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

Adjusted profit
In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes exceptional items and other adjustments including the related tax on these items. This adjusted information is disclosed to allow a better understanding of the underlying trading performance of the Group and is consistent with the Group's internal management reporting. Exceptional items are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. These items include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties and restructuring costs (see note 8). Other adjustments excluded from adjusted profit and earnings per share comprise the IAS 19 net pensions finance charge which can be volatile, as it is calculated with reference to long-term interest rates and represents a non-cash charge.

Recent accounting developments
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which could impact the Group, with an effective date after the date of these financial statements. They have not been adopted early by the Group and are not expected to have any material impact.

Amendment to IAS 19 – mandates the use of the IAS 19 discount rate in calculating the expected return on pension scheme assets rather than using the return that might be expected from a balanced portfolio of equities, bonds and other assets. This will be effective for the Group in 2013/14.

IFRS 9 Financial Statements – simplifies the classification, recognition and measurement requirements for financial assets, financial liabilities and some contracts to buy or sell non-financial items. This will be effective for the Group in 2015/16, if adopted by the European Union.

The following standards will be effective for the Group in 2013/14:

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interests in Other Entities; and IFRS 13 Fair Value Measurements.

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, except IFRS 13 which will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Exchange rates
The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the financial period of £1 = €1.23 (2011 £1 = €1.15), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.26 (2011 £1 = €1.15) and £1 = $1.61 (2011 £1 = $1.55) respectively.

2. Segmental analysis

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

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

	Retail Operating Business		Property Business		Total	
	2012 53 weeks £m	2011 52 weeks £m	2012 53 weeks £m	2011 52 weeks £m	2012 53 weeks £m	2011 52 weeks £m
Retained business						
Revenue	1,889	1,762	–	–	1,889	1,762
EBITDA pre-exceptionals	220	208	195[c]	190[c]	415	398
Operating profit pre-exceptionals	123	110	181	178	304	288
Other operations[a]						
Revenue					–	34
EBITDA pre-exceptionals					–	6
Operating profit pre-exceptionals					–	6
Total business						
Revenue[b]					1,889	1,796
EBITDA pre-exceptionals					415	404
Operating profit pre-exceptionals					304	294
Exceptional items and other adjustments[d]					(72)	(19)
Operating profit					232	275
Net finance costs					(149)	(143)
Profit before tax					83	132
Tax expense					(13)	(7)
Profit for the financial period					70	125

a. Other operations for the 52 weeks ended 24 September 2011 primarily related to the pre-disposal trading in relation to sites sold to Stonegate in November 2010. No analysis is provided for these sites in relation to Operating/Property business as this information was not reviewed by the CODM.
b. Revenue includes other income of £nil (2011 £6m) in respect of transitional services arrangements and £7m (2011 £13m) in relation to franchise operations.
c. The EBITDA pre-exceptionals of the property business relates entirely to rental income received from the retail operating business.
d. Refer to note 8.

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	
	2012 53 weeks £m	2011 52 weeks £m	2012 53 weeks £m	2011 52 weeks £m	2012 53 weeks £m	2011 52 weeks £m
Revenue – sales to third parties	1,837	1,745	52	51	1,889	1,796
Segment non-current assets[a]	3,849	3,861	5	3	3,854	3,864

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

3. Operating costs

	2012 53 weeks £m	2011 52 weeks £m
Raw materials and consumables recognised as an expense	547	550
Changes in inventory of finished goods and work in progress	(1)	–
Employee costs and exceptional pension charge (note 5)	519	507
Hire of plant and machinery	17	16
Property operating lease rentals:		
– minimum lease payments	52	42
Other costs	360	290
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	1,494	1,405
Depreciation of property, plant and equipment (note 13)	111	108
Amortisation of intangible assets (note 12)	–	2
Impairment of goodwill (note 12)	5	–
Net movement in the valuation of the property portfolio (note 8)	47	2
Depreciation, amortisation and movement in the valuation of the property portfolio	163	112
Total operating costs	1,657	1,517

4. Auditor's remuneration

	2012 53 weeks £m	2011 52 weeks £m
Fees payable to the Company's auditor for the:		
– audit of the Company's financial statements	0.1	0.1
– audit of the Company's subsidiaries financial statements	0.2	0.2
Total audit fees	0.3	0.3
Other fees to auditors:		
– internal audit services	–	0.2
– other services	0.1	0.1
Total non-audit fees	0.1	0.3

The auditor fee for the audit of the parent company was £22,000 (2011 £22,000).

All of the auditor remuneration was paid in the UK.

5. Employees and Directors

	2012 53 weeks £m	2011 52 weeks £m
Costs		
Wages and salaries	480	448
Share-based payments (note 6)	–	6
Total wages and salaries	480	454
Social security costs	34	32
Pensions (note 7)	5	21
Total employee costs and exceptional pension charge	519	507

The average number of employees including part-time employees was 40,338 pub and 840 support (2011 39,847 pub and 881 support).

Information regarding Key Management Personnel is included in note 29. 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 34 to 40.

6. Share-based payments

The net charge recognised for share-based payments in the year is £nil (2011 £6m), following the reversal of prior year provision for the Long Term Incentive Plan of £3.2m.

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

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

Details of schemes remaining as at 29 September 2012 are shown below:

Sharesave Plan

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

Share Incentive Plan

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

Short-Term Deferred Incentive Plan

Under the Short-Term Deferred Incentive Plan the annual bonuses of the Executive Directors and other eligible employees may be deferred into Mitchells & Butlers plc shares. From the 2009/10 bonus year onwards, at the discretion of the Remuneration Committee, at least 50% of the annual bonus for the Executive Directors and any excess over 75% of base salary earned in the year for the other eligible employees, will normally be deferred and released in equal tranches 12 and 24 months after deferral. Participants may receive Dividend Accrued Shares on vesting equal to the value of the ordinary dividends that would have been paid on the vested shares during the performance period. If a participant leaves the employment of the Group before the 'Release Dates', then in certain circumstances they may lose entitlement to Bonus Shares and Dividend Accrued Shares.

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

Long-Term Incentive Plan

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

Participants have been awarded a conditional right to receive Mitchells & Butlers plc shares with a value determined by their percentage of the LTIP pool. As at 29 September 2012, 53.27% of the total pool was allocated. The size of the LTIP pool is calculated based upon achieving a three year growth in market capitalisation of the Company in excess of the 'Hurdle Amount' (market capitalisation at award date plus 10% growth per annum, adjusted downwards for any dividends paid over the three year performance period ending on 29 July 2013). The LTIP pool is capped at £100m with any excess over this amount requiring Remuneration Committee approval.

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

Whilst the scheme remains operational, the Directors believe that it is unlikely that the performance condition will be achieved and a provision of £3.2m has been released in the current year.

Performance Restricted Share Plan

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

Vesting for the single remaining award (made in November 2009) is conditional upon the achievement of a Total Shareholder Return (TSR) performance condition. It is also dependent upon an adjusted earnings per share growth performance condition. This final scheme is due to vest in November 2012.

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

6. Share-based payments continued
Executive Share Option Plan
The grant of options under the Executive Share Option Plan was discontinued following shareholder approval of changes to Executive Director remuneration in 2006.

The vesting period for these options is three years from grant, followed by a seven year exercise period. The latest possible exercise date for any of these options outstanding at 29 September 2012, is 24 May 2015.

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

2012	Long-Term Incentive Plan	Sharesave Plan
Valuation model	Monte Carlo	Black-Scholes
Weighted average share price	264.8p[a]	249.0p
Exercise price	–	182.0p
Expected dividend yield[b]	2.00%	2.00%
Risk-free interest rate	0.73%	0.58%
Volatility[c]	33.0%	36.2%
Expected life (years)[d]	3.72	3.95

2011	Long-Term Incentive Plan	Sharesave Plan
Valuation model	Monte Carlo	Black-Scholes
Weighted average share price	333.5p[a]	315.0p
Exercise price	–	253.0p
Expected dividend yield[b]	2.00%	2.00%
Risk-free interest rate	1.23%	1.84%
Volatility[c]	52.6%	47.5%
Expected life (years)[d]	3.70	4.04

a. During the period an additional 4.53% (2011 14.49%) of the pool was awarded at a weighted average share price of 264.8p (2011 333.5p). The share price for the 2010 LTIP multiplied by the number of shares in issue on award date gives the market capitalisation at date of grant of £1,275m, which has been used to calculate the Hurdle Amount. There is no exercise price associated with the LTIP.
b. The expected dividend yield for the Sharesave Plan and LTIP has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 16.
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. The assumptions set out above are therefore not relevant to these schemes.

Movements in the awards and options outstanding under these schemes (excluding the LTIP) for the years ended 29 September 2012 and 24 September 2011 are as follows:

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 25 September 2010	39	8,729	1,405
Granted	101	–	308
Exercised	(68)	(386)	(264)
Forfeited	–	(2,899)	(61)
Outstanding at 24 September 2011	72	5,444	1,388
Granted	13	–	401
Exercised	(40)	(577)	(166)
Forfeited	–	(2,568)	(70)
Expired	(20)	(34)	–
Outstanding at 29 September 2012	25	2,265	1,553
Fair value of options granted during the period (pence)[a]			
At 29 September 2012	223.9	–	249.3
At 24 September 2011	345.6	–	315.0
Weighted average remaining contract life (years)			
At 29 September 2012	0.4	2.1	–[b]
At 24 September 2011	0.6	2.5	–[b]

a. Fair value is based 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.

	Executive Share Option Plan		Sharesave Plan		Rolled-over options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 25 September 2010	3,085	291.8	4,525	253.0	526	264.9
Granted	–	–	975	253.0	–	–
Exercised	(304)	286.0	(259)	234.0	(109)	259.7
Forfeited	(458)	326.1	(689)[a]	240.1	–	–
Expired	–	–	(392)	454.4	(35)	259.7
Options outstanding at 24 September 2011	2,323	285.7	4,160	237.3	382	266.7
Granted	–	–	1,294	182.0	–	–
Exercised	(312)	238.2	(120)	239.2	–	–
Forfeited	–	–	(757)[a]	243.2	–	–
Expired	(501)	316.7	(478)	270.8	(382)	266.7
Options outstanding at 29 September 2012	1,510	285.3	4,099	214.8	–	–
Options exercisable						
At 29 September 2012	1,510	285.3	–	–	–	–
At 24 September 2011	2,323	285.7	–	–	382	266.7
Fair value of options granted during the period (pence)[b]						
At 29 September 2012		–		86.8		–
At 24 September 2011		–		125.8		–
Range of prices (pence) of options outstanding						
At 29 September 2012		219.0 – 326.1		182.0 – 259.0		–
At 24 September 2011		219.0 – 326.1		196.0 – 711.0		266.7

a. The number of forfeited shares in the period includes 526,886 (2011 338,156) cancellations.
b. Weighted average fair value based on the date of grant has been shown for the Sharesave Plan.

The weighted average share price during the period was 252.1p (2011 311.8p).

6. Share-based payments continued

Summarised information about options outstanding at 29 September 2012 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number of shares outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number of shares exercisable thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[a]	2,265	2.1	–[a]	140	0.9	–[a]
Executive Share Option Plan						
219.0	166	0.7	219.0	166	0.7	219.0
252.5	596	1.6	252.5	596	1.6	252.5
326.1	748	2.6	326.1	748	2.6	326.1
	1,510	2.0	285.3	1,510	2.0	285.3
Sharesave Plan						
711.0	28	0.5	711.0	–	–	–
259.0	169	1.5	259.0	–	–	–
196.0	1,423	1.2	196.0	–	–	–
257.0	503	2.2	257.0	–	–	–
253.0	693	3.1	253.0	–	–	–
182.0	1,283	3.9	182.0	–	–	–
	4,099	2.5	214.8	–	–	–

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

7. Pensions

Background

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 2 November 2010, Mitchells & Butlers plc concluded a process of consultation and review with the Trustees, in which it considered proposals to close the defined benefit plan to future accrual. The ceasing of future accrual for this plan became effective from 13 March 2011. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. As a result of this change a curtailment charge of £13m was incurred during 2011, which was included within exceptional items, see note 8. 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.

Measurement of scheme assets and liabilities – IAS 19

The valuations used for IAS 19 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2010 and updated by the schemes' independent qualified actuaries to 29 September 2012. Scheme assets are stated at market value at 29 September 2012 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds (see 'discount rate' assumption in the table below). The IAS 19 deficit calculated on this basis is £88m (2011 £37m).

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

Principal financial assumptions

The principal financial assumptions adopted following the advice of independent qualified actuaries at the balance sheet date were:

	2012	2011
Wages and salaries increases	2.0%[a]	2.0%[a]
Pensions increases	2.8%	3.1%
Discount rate	4.3%	5.2%
Inflation rate	2.8%	3.2%

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

The discount rate applied to the pension schemes' liabilities is a significant driver of the net balance sheet valuation of the schemes and is subject to a high degree of judgement and complexity. It is estimated that a 0.1% increase or decrease in the discount rate used would, in isolation, reduce or increase the net balance sheet deficit by approximately £32m (2011 £26m), with no material impact on the income statement charge. A similar increase or decrease of 0.1% in the inflation rate would, in isolation, increase or reduce the net balance sheet deficit by approximately £30m (2011 £24m).

Mortality assumptions

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

	2012		2011	
	Main plan years	Exec plan years	Main plan years	Exec plan years
Male member aged 65 (current life expectancy)	20.3	24.6	20.3	24.6
Male member aged 45 (life expectancy at 65)	23.0	26.4	23.0	26.4
Female member aged 65 (current life expectancy)	23.1	26.0	23.1	26.0
Female member aged 45 (life expectancy at 65)	25.8	28.0	25.8	28.0

Amounts recognised in respect of defined benefit schemes

The long-term rates of return on assets at 29 September 2012 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2013 financial year. The 2011 rates shown are used in calculating the 2012 expected return.

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 4.5% (2011 5.2%). The actual investment return achieved on the scheme assets over the year was 11.2% (2011 5.8%), which represented a gain of £162m (2011 gain of £79m).

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

	2012		2011	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	6.9	488	6.9	420
Bonds	3.2	1,058	3.7	999
Other	4.9	64	5.5	53
Fair value of assets		1,610		1,472
Present value of scheme liabilities		(1,698)		(1,509)
Deficit in the schemes recognised as a liability in the balance sheet		(88)		(37)
Associated deferred tax asset (note 19)		20		9

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	2012 53 weeks £m	2011 52 weeks £m
Operating profit:		
Current service cost (defined benefit plans)	–	(4)
Current service cost (defined contribution plans)	(5)	(4)
Total current service cost	(5)	(8)
Exceptional pension charge	–	(13)
Charge to operating profit	(5)	(21)
Finance income:		
Expected return on pension scheme assets	66	74
Interest on pension scheme liabilities	(77)	(79)
Net finance charge in respect of pensions	(11)	(5)
Total charge	(16)	(26)

Group statement of comprehensive income	2012 53 weeks £m	2011 52 weeks £m
Actual return less expected return on pension scheme assets	96	5
Changes in assumptions underlying the present value of the scheme liabilities	(177)	79
Actuarial (loss)/gain recognised	(81)	84

7. Pensions continued

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

	Scheme assets 2012 £m	Scheme assets 2011 £m
Fair value of scheme assets at beginning of period	1,472	1,405
Expected return on plan assets	66	74
Employee contributions	–	1
Employer contributions	41	44
Benefits paid	(65)	(57)
Actuarial gain recognised	96	5
At end of period	1,610	1,472

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

	Defined benefit obligation 2012 £m	Defined benefit obligation 2011 £m
Present value of defined benefit obligation at beginning of period	(1,509)	(1,548)
Current service cost	–	(4)
Exceptional pension charge (see note 8)	–	(13)
Interest cost on benefit obligations	(77)	(79)
Employee contributions	–	(1)
Benefits paid	65	57
Actuarial (loss)/gain recognised	(177)	79
At end of period[a]	(1,698)	(1,509)

a. The defined benefit obligation comprises £19m (2011 £17m) relating to the MABETUS unfunded plan and £1,679m (2011 £1,492m) relating to the funded plans.

History of experience gains and losses:	2012	2011	2010	2009	2008
Difference between the expected and actual return on scheme assets					
Amount (£m)	96	5	65	10	(150)
Percentage of scheme assets	6%	0%	5%	1%	(12)%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	–	–	34	–	(2)
Percentage of the present value of the scheme liabilities	–	–	2%	–	–

	2012	2011	2010	2009	2008
Total amount recognised in the Group statement of comprehensive income					
Amount (£m)	(81)	84	(43)	(174)	(35)
Percentage of the present value of the scheme liabilities	5%	6%	(3)%	(12)%	(3)%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of comprehensive income is a £186m loss (2011 £105m loss, 2010 £189m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of the schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 26 September 2004.

Funding valuation and future funding obligations

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

In the 53 weeks ended 29 September 2012 the Group paid £5m (2011 £4m, 2010 £3m) in respect of the defined contribution arrangements, with £nil (2011 £nil) outstanding as at the year end.

At 29 September 2012 the MABPP owed £2m (2011 £2m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 15.

8. Exceptional items and other adjustments

	Notes	2012 53 weeks £m	2011 52 weeks £m
Operating exceptional items			
Exceptional pension charge (note 7)	a	–	(13)
Bid defence	b	(6)	–
Business reorganisation	c	(7)	–
IT systems reorganisation	c	(7)	–
Net loss arising on other exceptional items		(20)	(13)
Net profit/(loss) arising on property disposals		–	(4)
Movement in the valuation of the property portfolio:			
– (Impairment)/reversal arising from the revaluation	d	(35)	8
– Other impairment	d	(12)	(10)
– Impairment of goodwill	e	(5)	–
Net movement in the valuation of the property portfolio		(52)	(2)
Total operating exceptional items		(72)	(19)
Other adjustments			
Net pensions finance charge (note 7)	f	(11)	(5)
Total exceptional items and other adjustments before tax		(83)	(24)
Tax credit relating to above items		18	25
Exceptional tax charge in respect of prior years	g	(1)	(2)
Tax credit in respect of change in tax legislation (note 10)	h	11	12
Total tax credit		28	35
Total exceptional items and other adjustments (charge)/credit after tax		(55)	11

a. Relates to a curtailment charge in respect of the closure of the defined benefit pension plans to future accrual which occurred during the prior period, see note 7.
b. Relates to legal and professional fees incurred in the defence of a possible offer made by Piedmont Inc. in September 2011 to purchase all of the remaining Company shares. The possible offer was withdrawn on 13 October 2011.
c. This relates to the costs of a reorganisation announced by the Company on 22 November 2011. Costs are primarily redundancy and severance payments, fees in relation to professional advisors and one-off costs connected with the transfer of the IT data centre.
d. Movement in the valuation of the property portfolio includes £35m of impairment (2011 £8m credit) arising from the Group's revaluation of its pub estate, £12m (2011 £10m) of impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.
e. Goodwill impairment following testing of the value in relation to Ha Ha Bar & Grill Limited (see note 12).
f. The net pensions finance charge is a non-cash adjustment which is excluded from adjusted profit.
g. The current year charge is an adjustment in respect of prior year disposals and prior year derivative planning. The 2011 charge is an adjustment in respect of prior year disposals.
h. A deferred tax credit has been recognised in the current period following the enactment of legislation on 17 July 2012 which lowered the UK standard rate of corporation tax from 25% to 23% with effect from 1 April 2013. The prior year deferred tax credit relates to the enactment of legislation on 19 July 2011 which lowered the UK standard rate of corporation tax from 27% to 25% with effect from 1 April 2012.

9. Finance costs and revenue

	2012 53 weeks £m	2011 52 weeks £m
Finance costs		
Securitised and other debt – loans and receivables[a]	(140)	(141)
Finance revenue		
Interest receivable – cash	2	3
Net finance charge in respect of pensions (note 7)	(11)	(5)

a. Includes £6m (2011 £nil) in relation to accrued backdated interest on outstanding tax items.

10. Taxation

	2012 53 weeks £m	2011 52 weeks £m
Tax charged in the income statement		
Current tax:		
– UK corporation tax	28	32
– Amounts under/(over) provided in previous years	8	(3)
Total current tax	36	29
Deferred tax:		
– Origination and reversal of temporary differences	(5)	(13)
– Adjustments in respect of prior years	(7)	3
– Change in tax rate	(11)	(12)
Total deferred tax (note 19)	(23)	(22)
Total tax charged in the income statement	13	7

10. Taxation continued

	2012 53 weeks £m	2011 52 weeks £m
Tax relating to items recognised in equity		
Unrealised gains due to revaluations – revaluation reserve	15	17
Unrealised gains/(losses) due to revaluations – retained earnings	12	(16)
Actuarial gains/(losses) on pension schemes	16	(25)
Cash flow hedges:		
– Losses arising during the period	24	30
– Reclassification adjustments for losses included in profit or loss	(18)	(15)
Tax credit/(charge) on items of other comprehensive (expense)/income	49	(9)
Tax on share-based payments recognised directly in equity	(1)	(2)
Total tax credit/(charge) on items recognised in equity	48	(11)

Reconciliation of the total tax charge
The tax charge in the income statement for the year is lower (2011 lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2012 53 weeks £m	2011 52 weeks £m
Profit before tax	83	132
Accounting profit multiplied by the UK standard rate of corporation tax of 25% (2011 27%)	21	36
Expenses not deductible	5	3
Income not taxable	(3)	(20)
Adjustments in respect of prior years	1	–
Tax credit in respect of change in tax rate	(11)	(12)
Total tax charge reported in the income statement	13	7

Factors which may affect future tax charges
A number of changes to the UK corporation tax system were announced in the March 2012 Budget Statement. The Finance Act 2012 was enacted on 17 July 2012 and reduced the main rate of corporation tax from 25% to 23% from 1 April 2013. The effect of this change has been reflected on the closing deferred tax balance shown in note 19.

A further reduction to the main rate of corporation tax is proposed to be enacted separately with the aim of reducing the rate to 22% by 1 April 2014. The reduction in the corporation tax rate is likely to result in a further reduction in the net deferred tax liability provided at 29 September 2012 of approximately £12m.

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

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

Adjusted earnings per ordinary share amounts are presented before exceptional items and other adjustments and the net pensions finance charge (see note 8) 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
53 weeks ended 29 September 2012:			
Profit/EPS	70	17.1p	17.0p
Exceptional items and other adjustments, net of tax	46	11.2p	11.1p
Net pensions finance charge, net of tax	9	2.2p	2.1p
Adjusted profit/EPS	125	30.5p	30.2p
52 weeks ended 24 September 2011:			
Profit/EPS	125	30.7p	30.5p
Exceptional items and other adjustments, net of tax	(15)	(3.7)p	(3.7)p
Net pensions finance charge, net of tax	4	1.0p	0.9p
Adjusted profit/EPS	114	28.0p	27.7p

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

	2012 53 weeks m	2011 52 weeks m
For basic EPS calculations	409	407
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	2	2
– Other share options	1	2
For diluted EPS calculations	412	411

At 29 September 2012, 4,274,023 (2011 164,146) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

12. Goodwill and other intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 25 September 2010	–	7	7
Additions	7	4	11
Disposals[a]	–	(3)	(3)
At 24 September 2011	7	8	15
Additions	–	–	–
Disposals[a]	–	(4)	(4)
At 29 September 2012	7	4	11
Accumulated amortisation and impairment			
At 25 September 2010	–	6	6
Provided during the year	–	2	2
Disposals[a]	–	(3)	(3)
At 24 September 2011	–	5	5
Provided during the year	–	–	–
Disposals[a]	–	(4)	(4)
Impairment	5	–	5
At 29 September 2012	5	1	6
Net book value			
At 29 September 2012	2	3	5
At 24 September 2011	7	3	10
At 25 September 2010	–	1	1

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.

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

Goodwill has been tested for impairment on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 9% (2011 7%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 2% (2011 2%) growth per annum.

Following this test, £5m of the goodwill carried in relation to Ha Ha Bar & Grill Limited is impaired.

13. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 25 September 2010[a]	3,305	896	4,201
Exchange differences	–	1	1
Acquired through business combinations	9	6	15
Additions	52	92	144
Disposals[b]	(12)	(63)	(75)
Revaluation[c]	62	(1)	61
Transferred from assets held for sale	38	12	50
At 24 September 2011	3,454	943	4,397
Exchange differences	(2)	(2)	(4)
Transfers from/(to) other categories	10	(6)	4
Additions	55	92	147
Disposals[b]	(19)	(67)	(86)
Revaluation[c]	(30)	(7)	(37)
At 29 September 2012	3,468	953	4,421
Depreciation			
At 25 September 2010[a]	114	394	508
Exchange differences	–	1	1
Provided during the year	19	89	108
Disposals[b]	(11)	(61)	(72)
Revaluation[c]	(10)	–	(10)
Transferred from assets held for sale	7	7	14
At 24 September 2011	119	430	549
Exchange differences	(2)	(2)	(4)
Transfers from other categories	2	–	2
Provided during the year	23	88	111
Disposals[b]	(18)	(67)	(85)
At 29 September 2012	124	449	573
Net book value			
At 29 September 2012	3,344	504	3,848
At 24 September 2011	3,335	513	3,848
At 25 September 2010	3,191	502	3,693

a. As part of the detailed preparatory work being undertaken by the Group in advance of investment in a new financial and management accounting system, a number of historical adjustments made to the fixed asset register have been reviewed and are believed to no longer be required. These adjustments have no impact on the carrying value of the assets and have been removed from the general ledger. In accordance with IAS 8 the opening cost and accumulated depreciation at 25 September 2010 has been restated to reflect these adjustments. The opening cost has increased by £293m (being an increase of £117m to land and buildings and an increase of £176m to the cost of fixtures, fittings and equipment) and an adjustment has been recorded to restate the brought forward accumulated depreciation at 25 September 2010 by £293m (being an increase of £102m to the accumulated depreciation of land and buildings and an increase of £191m to the accumulated depreciation of fixtures, fittings and equipment). There is no impact on the net book value of property, plant and equipment in the balance sheet.

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

c. The impact of the property revaluation is a net book value decrease of £25m (2011 £81m increase) comprising an impairment of £35m (2011 £8m surplus) net of a revaluation reserve credit of £10m (2011 £73m) shown in the Group statement of comprehensive income. In addition, a review of the short leasehold and unlicensed property estate has resulted in an impairment of £12m (2011 £10m) (see note 8).

Certain assets with a net book value of £33m (2011 £33m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Properties
A policy of valuing the majority of the Group's freehold and long leasehold licensed properties, for accounting purposes, was adopted on 29 September 2007. Short leasehold properties, unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment. The Group accounts for long leasehold land as an operating lease.

The freehold and long leasehold properties have been valued at market value, as at 29 September 2012 using information provided by CBRE (24 September 2011 by Colliers International UK plc), independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels taking account of location, quality of the pub restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold properties. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold properties would generate approximately £8m movement in their valuation.

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

Included within property, plant and equipment are assets with a net book value of £3,541m (2011 £3,594m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Net book value[a]
The split of the net book value of land and buildings is as follows:

	2012 £m	2011 £m
Freehold	2,984	2,967
Long leasehold	253	260
Short leasehold	107	108
Total land and buildings net book value	3,344	3,335

a. The carrying value of freehold and long leasehold land and buildings based on their historical cost (or deemed cost at transition to IFRS) is £2,070m and £166m respectively (2011 £2,078m and £170m).

In addition to the above, premiums paid on acquiring a new lease are classified separately in the balance sheet. At 29 September 2012 an amount of £1m (2011 £6m) was included in the balance sheet.

14. Inventories

	2012 £m	2011 £m
Work in progress[a]	4	4
Goods held for resale	22	21
Total inventories	26	25

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

15. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	–	1
Other receivables	23	20
Prepayments	26	18
Other financial assets[a]	7	31
Total trade and other receivables	56	70

a. Other financial assets relate to cash collateral provided by the swap provider (see note 18).

All amounts fall due within one year.

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

Credit risk is considered in note 18.

16. Trade and other payables

	2012 £m	2011 £m
Current		
Trade payables	74	99
Other taxation and social security	63	57
Accrued charges	81	66
Other payables	40	45
Other financial liabilities (note 15)	7	31
Total trade and other payables	265	298
Non-current		
Other payables[a]	12	12

a. Non-current other payables comprise an amount held in respect of the Group's gaming machine VAT claim. A decision was released during 2010 in respect of Rank plc's gaming claim and this ruling fell in the taxpayer's favour. As a result, the Group was able to further pursue its own gaming claim which was submitted in April 2006. HMRC agreed to make a repayment of the existing claim, subject to the Group providing a guarantee to HMRC that, in the event that the existing decision is overturned in a higher court, the amount will be repayable in full. HMRC lodged an appeal with the European Court of Justice (ECJ) in 2010 in respect of Rank plc's decision. The ECJ released its decision on the Rank plc case on 11 November 2011. The outcome is still uncertain as a hearing in the UK Upper Tribunal in June 2012 concluded that the original Rank plc hearing in the First Tier Tribunal (FTT) made an error of law and therefore needs to reconsider the case in line with the ECJ findings. No date has been set for the FTT hearing. The Group continues to hold the original repayment amount of £12m as a liability until there is more certainty as to the outcome of this appeal.

Current trade and other payables are non-interest bearing.

17. Borrowings

	2012			2011		
	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Total borrowings (securitised debt[a, b])	53	2,133	2,186	49	2,197	2,246

a. Further details of the assets pledged as security against the securitised debt are given on page 65.
b. Stated net of deferred issue costs.

	2012 £m	2011 £m
Analysis by year of repayment[a]		
Due within one year or on demand	53	49
Due between one and two years	66	729
Due between two and five years	202	182
Due after five years	1,865	1,286
Total borrowings	2,186	2,246

a. Loan tranches are shown as held to their maturity dates. In previous years loan tranches have been shown as being refinanced at their step-up date. The Group holds an unconditional right to refinance tranches A4, AB, C2 and D1 at their step-up date should prevailing market conditions be beneficial.

Securitised debt

At 29 September 2012 the loan notes consisted of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding 29 September 2012 £m	Principal outstanding 24 September 2011 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.21[b]	186	194	9 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	339	354	9 years
A3N	250	Floating	2011 to 2028	6.29[b]	233[c]	243[c]	9 years
A4	170	Floating	2016 to 2028	5.42[b]	170	170	11 years
AB	325	Floating	2020 to 2032	5.25[b]	325	325	5 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	220	239	6 years
B2	350	Fixed – 6.01%	2015 to 2028	6.12	350	350	12 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	200	200	17 years
C2	50	Floating	2033 to 2034	5.43[b]	50	50	21 years
D1	110	Floating	2034 to 2036	5.50[b]	110	110	23 years
	2,555				2,183	2,235	

a. Whilst the expected remaining weighted average life (WAL) is based on the loan notes being held to maturity, the Group has an unconditional right to refinance the A4, AB, C2 and D1 loan notes at the step-up date. The margin step-up dates as at 29 September 2012 are set out below.
b. After the effect of interest rate swaps.
c. A3N notes are $ notes which are shown as translated to sterling at the hedged swap rate. Values at the year end spot rate are £242m (2011 £263m).

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

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

Tranche	Interest	Margin	Margin step-up date	Post step-up margin
A1N	3 month LIBOR	0.45%	No further step-up	
A3N	3 month $ LIBOR	0.45%	No further step-up	
A4	3 month LIBOR	0.23%	September 2013	0.58%
AB	3 month LIBOR	0.24%	September 2013	0.60%
C2	3 month LIBOR	0.75%	September 2013	1.88%
D1	3 month LIBOR	0.85%	September 2013	2.13%

The overall cash interest rate payable on the loan notes is 5.9% (2011 5.8%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail 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 29 September 2012, Mitchells & Butlers Retail Limited had cash and cash equivalents of £133m (2011 £135m) which were governed by the covenants associated with the securitisation. Of this amount £42m (2011 £44m), 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 at 29 September 2012 is analysed as follows:

	2012 £m	2011 £m
Principal outstanding at beginning of period	2,255	2,299
Principal repaid during the period	(52)	(49)
Exchange on translation of dollar loan notes	(11)	5
Principal outstanding at end of period	2,192	2,255
Deferred issue costs	(10)	(12)
Accrued interest	4	3
Carrying value at end of period	2,186	2,246

Undrawn committed borrowing facilities

The Group holds an undrawn £295m (2011 £295m) liquidity facility against the securitised arrangements, sized to cover 18 months debt service, which is not available for any other purpose. This facility will expire on 30 August 2013.

18. Financial instruments

Financial risk management

Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Treasury Policy Statement which details the key objectives and policies for the Group's treasury management. The Treasury Committee ensures that the Treasury Policy is adhered to, monitors its operation and agrees appropriate strategies for recommendation to the Board. The Treasury Policy Statement is reviewed annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

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

The main financial risks which impact the Group result from funding and liquidity risk, credit risk, capital risk and market risk, principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

18. Financial instruments continued

Funding and liquidity risk

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

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

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

The maturity table below details the contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps. Trade and other payables (note 16) are short-term and excluded from the table.

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
29 September 2012[a]							
Fixed rate:							
Securitised debt[b]	(181)	(186)	(186)	(187)	(193)	(2,494)	(3,427)
24 September 2011[a]							
Fixed rate:							
Securitised debt[b]	(180)	(834)	(145)	(145)	(144)	(1,904)	(3,352)

a. Loan tranches are shown as held to their maturity dates. In previous years loan tranches have been shown as being refinanced at their step-up date. The Group holds an unconditional right to refinance tranches A4, AB, C2 and D1 at their step-up date should prevailing market conditions be beneficial.
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 £7m (2011 £31m) of collateral was posted by a swap provider within the securitisation as at 29 September 2012. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four weekly basis.

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

The Group's credit exposure as at 29 September 2012 was:

	2012 £m	2011 £m
Cash and cash equivalents	311	306
Other cash deposits	25	50
Trade receivables	–	1
Other receivables[a]	23	20
Derivatives[b]	4	18

a. The Group may have a right of offset against certain amounts held within this balance.
b. As disclosed in note 15 and 16, the Group has £7m (2011 £31m) of cash collateral which is not included in this balance.

Capital management
The Group's capital base is comprised of its net debt (analysed in note 25) 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 17). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions at each of its meetings, based on the advice of the Treasury Committee which meets on a four weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at 29 September 2012 is as follows:

	2012 £m	2011 £m
Net debt (note 25)	1,841	1,870
Total equity	1,088	1,092
Total capital	2,929	2,962

Market risk
The Group is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk comprises foreign currency and interest rate risk.

Foreign currency risk
The Group faces currency risk in two main areas:

US$407m of Class A3N floating rate notes which form part of the securitised debt (see note 17). At issuance of the notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and initial interest elements of the notes. Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US$ interest payable. A movement of 10% in the US$ exchange rate would have £nil (2011 £nil) impact on the reported Group profit and 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 £2.2bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

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

	2012 £m	2011 £m
Interest income[a]	3	3
Interest expense[b]	–	(1)
Profit impact	3	2
Derivative financial instruments (fair values)[c]	124	126
Total equity	127	128

a. Represents interest income earned on cash and cash equivalents (these are defined in note 25).
b. The element of interest expense which is not matched by payments and receipts under cash flow hedges (see below) which would otherwise offset the interest rate exposure of the Group.
c. The impact on total equity from movements in the fair value of cash flow hedges (see below).

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

During the period a loss of £103m (2011 £118m) on cash flow hedges was recognised in equity. A loss of £54m (2011 £37m) was recycled from equity and included in the Group income statement for the period.

18. Financial instruments continued

Cash flow hedges – securitised borrowings

At 29 September 2012, the Group held 10 (2011 10) interest rate swap contracts with a nominal value of £1,075m (2011 £1,092m), designated as a hedge of the cash flow interest rate risk of £1,075m (2011 £1,092m) 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 4.8856% (2011 4.8904%). The contract maturity dates match those of the hedged item. The ten interest rate swaps above are held on the balance sheet at fair market value, which is a liability of £325m (2011 £278m).

At 29 September 2012 the Group held one (2011 one) cross currency interest rate swap contract, with a nominal value of £233m (2011 £243m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate $390m (2011 $407m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £4m (2011 £17m).

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 fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 29 September 2012 and may be subject to material movements in the period subsequent to the balance sheet date.

	Derivative financial instruments – fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash flow hedges:					
– Interest rate swaps	–	–	(45)	(280)	(325)
– Cross currency swap	4	–	–	–	4
29 September 2012	4	–	(45)	(280)	(321)
24 September 2011	18	–	(44)	(235)	(261)

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

	2012		2011	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets:				
– Cash	336	336	356	356
– Derivative instruments in designated hedge accounting relationships	4	4	17	17
– Loans and receivables	23	23	21	21
Financial liabilities:				
– Amortised cost	(2,186)	(1,927)	(2,246)	(1,999)
– Derivative instruments in designated hedge accounting relationships	(325)	(325)	(278)	(278)
– Other	(177)	(177)	(201)	(201)
	(2,325)	(2,066)	(2,331)	(2,084)

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 Group's financial instruments are all categorised as level 2 as defined under IFRS 7 Financial Instruments: Disclosures.

19. Deferred tax

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

	2012 £m	2011 £m
Deferred tax liability:		
Accelerated capital allowances	52	56
Rolled over and held over gains	161	177
Unrealised gains on revaluations	161	188
Depreciated non-qualifying assets	8	8
Total deferred tax liability	382	429
Deferred tax asset:		
Retirement benefit obligations (note 7)	20	9
Share-based payments	3	5
Derivative financial instruments	76	69
Non-trade tax losses	8	–
Total deferred tax asset	107	83
Deferred tax in the income statement:		
Accelerated capital allowances	(4)	(18)
Retirement benefit obligations	5	5
Rolled over and held over gains	(8)	(15)
Short-term temporary differences	–	1
Depreciated non-qualifying assets	(1)	(1)
Unrealised losses on revaluations	(7)	1
Non-trade tax losses	(8)	5
Total deferred tax credit in the income statement (note 10)	(23)	(22)

Unrecognised tax losses

At the balance sheet date the Group had unused losses of £6m (2011 £12m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £1m (2011 £3m) because it is not certain that future taxable profits will be available against which the Group can utilise the benefit. These tax losses can be carried forward indefinitely.

20. Provisions

	Property leases £m
At 26 September 2010	6
Additions	1
Utilised	(1)
At 24 September 2011	6
Additions	6
Utilised	(3)
At 29 September 2012	9

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.

21. Called up share capital

	2012		2011	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8 13/24p each	1,181,130,148	101	1,181,130,148	101
Allotted, called up and fully paid				
Ordinary shares of 8 13/24p each				
At start of period	409,467,418	35	408,953,036	35
Share capital issued	456,387	–	514,382	–
At end of period	409,923,805	35	409,467,418	35

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

No dividends have been declared or paid in the year (2011 £nil).

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

22. Employee share trusts
The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust
The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's 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 29 September 2012, the trustees, Equiniti Share Plan Trustees Limited, held 1,584,896 (2011 1,414,689) shares in the Company. Of these shares, 260,283 (2011 269,162) shares are unconditionally available to employees, 426,313 (2011 305,570) shares have been conditionally awarded to employees, 866,754 (2011 813,867) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 31,546 (2011 26,090) shares are unallocated.

Employee Benefit Trust (EBT)
The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short-Term Deferred Incentive Plan, Sharesave Plan and the Rolled-over options. The EBT purchases shares in the market or subscribes for newly issued shares, from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 29 September 2012, the trustees, Sanne Trust Company Limited, were holding 546,560 (2011 1,125,299) shares in the Company.

23. Equity reserves
The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £181m at 29 September 2012 (2011 £200m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 17).

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

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

Revaluation reserve
The revaluation reserve represents the unrealised gain generated on revaluation of the property estate with effect from 29 September 2007. It comprises the excess of the fair value of the estate over deemed cost, net of related deferred taxation.

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

During the financial period, there were no transactions of shares from treasury to employees and no treasury shares were acquired. The 429 shares held in treasury at 29 September 2012 had a market value of £1k (24 September 2011 £1k). The aggregate nominal value of the treasury shares held at 29 September 2012 was £37 (2011 £37).

During the financial period, the employee share trusts acquired 350,000 (2011 nil) and subscribed for 335,794 (2011 255,167) shares at a cost of £1m (2011 £nil), released 1,094,326 (2011 1,131,299) shares to employees on the exercise of options and other share awards for a total consideration of £1m (2011 £1m). The 2,131,456 shares held by the trusts at 29 September 2012 had a market value of £6m (24 September 2011 2,539,988 shares held had a market value of £6m). Further details regarding the employee share trusts are given in note 22.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

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

Goodwill
Goodwill eliminated against reserves at 29 September 2012 was £50m (2011 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

24. Cash flow from operations

	2012 53 weeks £m	2011 52 weeks £m
Operating profit	232	275
Add back: operating exceptional items	72	19
Operating profit before exceptional items	304	294
Add back:		
Depreciation of property, plant and equipment	111	108
Amortisation of intangibles (computer software)	–	2
Cost charged in respect of share-based payments	–	6
Defined benefit pension cost less regular cash contributions	–	(1)
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	415	409
Movements in working capital and pension contributions:		
Increase in inventories	(1)	–
(Increase)/decrease in trade and other receivables	(9)	3
Decrease in trade and other payables	(21)	(36)
Increase in provisions	3	–
Additional pension contributions (note 7)	(40)	(40)
Cash flow from operations	347	336

25. Analysis of net debt

	2012 £m	2011 £m
Cash and cash equivalents (see below)	311	306
Other cash deposits (see below)	25	50
Securitised debt (note 17)	(2,186)	(2,246)
Derivatives hedging balance sheet debt[a] (note 17)	9	20
	(1,841)	(1,870)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US dollar denominated loan notes (see note 17). This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including overnight deposits, of £286m (2011 £259m) and cash deposits with an original maturity of three months or less of £25m (2011 £47m).

Other cash deposits

Other cash deposits at 29 September 2012 comprise £25m (2011 £50m) of cash at bank with an original maturity of three months or more.

26. Movement in net debt

	2012 53 weeks £m	2011 52 weeks £m
Net increase in cash and cash equivalents	5	78
Add back cash flows in respect of other components of net debt:		
Transfers (from)/to other cash deposits	(25)	50
Repayment of principal in respect of securitised debt	52	49
Repayment of principal in respect of other borrowings	–	259
Decrease in net debt arising from cash flows	32	436
Movement in capitalised debt issue costs net of accrued interest	(3)	(4)
Decrease in net debt	29	432
Opening net debt	(1,870)	(2,302)
Closing net debt	(1,841)	(1,870)

27. Financial commitments

Leases

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

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 payments under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Due within one year	41	40
Between one and five years	153	147
After five years	443	450
	637	637

Operating lease receivables – Group as lessor

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

	2012 £m	2011 £m
Due within one year	7	7
Between one and five years	23	22
After five years	56	55
	86	84

Lease income recognised in the year was as follows:	2012 53 weeks £m	2011 52 weeks £m
Standard lease income	9	9

Capital commitments

	2012 £m	2011 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	16	24

28. Acquisitions

Ha Ha Bar & Grill Limited (HHBG)

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

Intertain (Dining) Limited (IDL)

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

Goodwill in relation to HHBG has been impaired in the period (see note 12).

No other adjustments have been made to the fair value of assets and liabilities acquired in these transactions during the year ended 29 September 2012.

29. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

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

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

a. Shares held directly by Mitchells & Butlers plc.

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

Compensation of key management personnel of the Group:

	2012 £m	2011 £m
Short-term employee benefits	3	3
Termination payments	1	1
Share-based payments	–	2
	4	6

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

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

Five year review
Income statement information

	2012 53 weeks £m	2011 52 weeks £m	2010 52 weeks £m	2009 52 weeks £m	2008 52 weeks £m
Revenue	1,889	1,796	1,980	1,958	1,908
Operating profit before exceptional items	304	294	322	300	343
Operating exceptional items	(72)	(19)	(289)	(87)	(212)
Total operating profit	232	275	33	213	131
Finance revenue	2	3	–	–	–
Interest on net debt	(140)	(141)	(153)	(166)	(167)
Exceptional interest charge	–	–	–	(51)	(205)
Net finance (charge)/income on pensions	(11)	(5)	(7)	(6)	3
Profit/(loss) before taxation	83	132	(127)	(10)	(238)
Taxation (charge)/credit	(13)	(7)	43	14	62
Profit/(loss) for the financial year	70	125	(84)	4	(176)
Earnings/(loss) per share					
Basic	17.1p	30.7p	(20.6)p	1.0p	(43.7)p
Diluted	17.0p	30.5p	(20.6)p	1.0p	(43.7)p
Adjusted[a]	30.5p	28.0p	29.7p	23.6p	31.0p
Dividends paid and proposed[b]					
Normal dividends (£m)	–	–	–	–	18
Normal dividends per share	–	–	–	–	4.55p

a. Adjusted earnings per share for the year 2008 has been restated to exclude net pensions finance income, in line with the change in disclosure of this item adopted in 2009 (see note 1 'Adjusted profit').
b. Dividend information for all years represents interim and final dividends for the year presented.

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

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

We have audited the financial statements for Mitchells & Butlers plc, the parent company of Mitchells & Butlers for the 53 weeks ended 29 September 2012. These comprise the parent company Balance Sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 29 September 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report on Directors' remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Mitchells & Butlers plc for the 53 weeks ended 29 September 2012.

Stephen Griggs
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
London, UK
26 November 2012

Mitchells & Butlers plc – parent company Balance sheet

Registered Number: 04551498

29 September 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investments	5	1,718	1,720
		1,718	1,720
Current assets			
Debtors: amounts falling due within one year	6	237	142
Debtors: amounts falling due in more than one year	6	–	1
Other cash deposits		50	75
Cash and cash equivalents		140	131
		427	349
Creditors: amounts falling due within one year	7	(1,326)	(1,339)
Net current liabilities		(899)	(990)
Net assets before net pension liabilities		819	730
Net pension liabilities	2	(68)	(27)
Net assets		751	703
Capital and reserves			
Called up share capital	8, 9	35	35
Share premium account	9	21	21
Capital redemption reserve	9	3	3
Profit and loss account	9	692	644
Shareholders' funds		751	703

Signed on behalf of the Board on 26 November 2012

Bob Ivell
Tim Jones

The accounting policies and the notes on pages 79 to 82 form an integral part of these financial statements.

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting

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

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

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

The Company's accounting policies have been applied consistently.

Fixed asset investments

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

Current taxation

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

Deferred taxation

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted, at the balance sheet date.

Pension obligations

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

The liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets, shown net of deferred tax. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified independent actuaries. There is no current service cost as all defined benefit schemes are closed to future accrual. The interest cost and the expected return on assets are shown as a net amount of finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in equity. Curtailments and settlements relating to the Company's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

For the Company's defined contribution arrangements, the charge against profit is equal to the amount of contributions payable.

Share-based compensation

The Company operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is generally recognised over the vesting period and is adjusted for the estimated effect, on the number of shares that will eventually vest, of non market-based vesting conditions and forfeitures due to employees leaving the employment of the Company. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

In accordance with FRS 26, the Company applies fair value accounting in order to hedge part of its euro loan with Mitchells & Butlers Germany GmbH against part of its investment in Mitchells & Butlers Germany GmbH. Foreign exchange differences arising on translation on both of these items using the period end rate are taken to the profit and loss account. The remainder of the investment in Mitchells & Butlers Germany GmbH is held at cost as described above.

Profit and loss account

The Company recorded a profit after tax of £114m (2011 profit of £56m), less dividends of £nil (2011 £nil).

Auditors' remuneration for audit services to the Company was £22,000 (2011 £22,000). This is borne by another group company, as are any other costs relating to non-audit services (see note 4 to the consolidated financial statements).

Cash flow statement

The Company has taken advantage of the exemption under FRS 1 Cash Flow Statements and not produced a cash flow statement.

Related party transactions

The Company has taken advantage of the exemption under FRS 8 Related Party Disclosures and not disclosed details of transactions with wholly owned subsidiaries.

2. Pensions

The net pension liability of £68m (2011 £27m), is shown net of a deferred tax asset of £20m (2011 £10m).

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 7 on pages 58 to 60 to the consolidated financial statements.

Although the Company accounts for pensions under FRS 17 'Retirement Benefits', the pension amounts and disclosures included in note 7 to the consolidated financial statements in accordance with IAS 19 'Employee Benefits', are equivalent to those which are applicable under FRS 17.

3. Employees and Directors

	2012 53 weeks Number	2011 52 weeks Number
Average number of employees, including part-time employees	5	8

Employees of Mitchells & Butlers plc consist of Executive Directors and members of the Executive Committee.

4. Share-based payments

The credit recognised for share-based payments in the year is £1m (2011 charge £2m) 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 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 29 September 2012 and 24 September 2011 are as follows:

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 25 September 2010	39	3,877	20
Granted	68	–	3
Exercised	(68)	(187)	(4)
Forfeited	–	(1,526)	(4)
Expired	–	–	–
Outstanding at 24 September 2011	39	2,164	15
Granted	13	–	2
Exercised	(19)	(230)	(15)
Forfeited	–	–	–
Expired	(20)	(1,121)	–
Outstanding at 29 September 2012	13	813	2
Fair value of options granted during the period (pence)[a]			
At 29 September 2012	223.9	–	249.3
At 24 September 2011	345.6	–	315.0
Weighted average remaining contract life (years)			
At 29 September 2012	0.7	2.2	–[b]
At 24 September 2011	0.2	2.6	–[b]

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.

	Executive Share Option Plan		Sharesave Plan	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 25 September 2010	1,027	315.1	25	226.7
Granted	–	–	–	–
Exercised	(196)	297.6	–	–
Forfeited	(460)	326.1	(6)	259.0
Expired	–	–	–	–
Options outstanding at 24 September 2011	371	310.8	19	215.7
Granted	–	–	13	182.0
Exercised	(77)	252.5	(8)	196.0
Forfeited	–	–	(11)	229.3
Expired	(294)	326.1	–	–
Options outstanding at 29 September 2012	–	–	13	182.0
Options exercisable				
At 29 September 2012	–	–	–	–
At 24 September 2011	371	310.8	–	–
Fair value of options granted during the period (pence)[a]				
At 29 September 2012		–		86.8
At 24 September 2011		–		–
Range of prices (pence) of options outstanding:				
At 29 September 2012		–		182.0
At 24 September 2011		252.5 – 326.1		196.0 – 257.0

a. Fair value is calculated on date of grant.

The weighted average share price during the period was 252.1p (2011 311.8p).

Summarised information about options over the Company's shares outstanding at 29 September 2012 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 58.

5. Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
At 24 September 2011	1,750
Exchange differences	(2)
At 29 September 2012	1,748
Provision	
At 24 September 2011	30
Provided during year	–
At 29 September 2012	30
Net book value	
At 29 September 2012	1,718
At 24 September 2011	1,720

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 29 of the consolidated financial statements).

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

6. Debtors

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	237	142
Deferred tax asset	–	1
	237	143

All amounts fall due within one year, except for the deferred tax asset which falls due after more than one year.

7. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Bank overdraft	26	26
Amounts owed to subsidiary undertakings	1,298	1,311
Other creditors	2	2
	1,326	1,339

8. Called up share capital

Details of the amount and nominal value of authorised, allotted, called up and fully paid share capital are contained in note 21 page 71 to the consolidated financial statements.

9. Capital and reserves

				Profit and loss account reserve		
	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Other £m	Total £m
At 24 September 2011	35	21	3	(5)	649	644
Share capital issued	–	–	–	–	–	–
Purchase of own shares	–	–	–	(1)	–	(1)
Credit in respect of employee share schemes	–	–	–	–	(1)	(1)
Release of own shares	–	–	–	3	(2)	1
Actuarial loss on pension schemes	–	–	–	–	(81)	(81)
Deferred tax relating to actuarial gain	–	–	–	–	16	16
Profit after taxation	–	–	–	–	114	114
At 29 September 2012	35	21	3	(3)	695	692

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

10. Deferred tax asset

	£m
At 24 September 2011	11
Charged to profit and loss account	(7)
Credit to profit and loss account reserves	16
At 29 September 2012	20

Analysed as tax on timing differences related to:

	2012 £m	2011 £m
Share-based payments	–	1
Pensions	20	10
Deferred tax asset	20	11

The deferred tax asset in respect of pensions is netted off the pension liability in note 2.

Further information on the changes to tax legislation are provided in note 10 on pages 61 and 62 to the consolidated financial statements.

SHAREHOLDER INFORMATION

PREMIUM COUNTRY DINING GROUP

Find out more online:
www.mbplc.com/ourbrands

In this section

Shareholder information

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Fax +44 (0)121 233 2246

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Spencer Road
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West Sussex BN99 6DA

From the UK:
Telephone 0871 384 2065*
Fax 0871 384 2100*

From non-UK jurisdictions:
Telephone +44 (0)121 415 7088
Fax +44 (0)1903 833 113

For those with hearing loss, a textphone is available on 0871 384 2255* for UK callers with compatible equipment.

* Calls to these numbers are charged at 8p per minute from a BT landline. Other telephony provider costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Key dates

These dates are indicative only and may be subject to change	
2012 final results announcement	27 November 2012
Annual General Meeting	31 January 2013
Interim management statement	January 2013
Announcement of half-year results	May 2013
Interim management statement	July 2013
Pre-close trading update	September 2013
2013 final results announcement	November 2013

Glossary

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

AWT (Average Weekly Take)
The average sales per site per week, calculated as total sales excluding VAT divided by the average number of sites trading during the period divided by the number of weeks in the period.

Cash flow from operations
Net cash flow resulting directly from regular operations.

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

EBITDAR
Earnings before interest, tax, depreciation, amortisation and rent.

Internal Rent
A notional rent charge made against freehold properties to align internal performance measurement across freehold and leasehold sites.

Like-for-like sales growth
The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.

National Minimum Wage
The minimum amount an employer must pay its employees as defined by law.

Off-trade
Any retail outlet which has a licence to sell alcohol for consumption off the premises.

On-trade
Any retail outlet which has a licence to sell alcohol for consumption on the premises (e.g. pubs, restaurants, nightclubs, clubs).

Operating profit
Earnings before interest and tax.

Outlet employment ratio
Outlet employment costs divided by sales, expressed as a percentage.

Red Book valuation
A valuation conducted in compliance with the valuation standards of the Royal Institution of Chartered Surveyors.

Returns on expansionary capital
Incremental return is the growth in annual site EBITDA expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a site or to materially change the customer offer.

Securitisation
A means of raising finance secured on a particular group of assets and the associated cash flows derived from those assets.

Mitchells & Butlers online

Mitchells & Butlers' comprehensive website gives you fast, direct access to a wide range of Company information.

- Downloadable Annual report and accounts
- Latest investor news and press releases
- Brand news and offers
- Responsibility policies and review
- Find a local pub and restaurant
- Sign up for latest news

To find out more go to www.mbplc.com

Our brands

All of our popular brands have their own websites, helping our customers to find the information they need straightaway. Latest food and drink menus, news and offers, email newsletters and details of new openings are all available.

Sizzling Pubs
www.sizzlingpubs.co.uk

Vintage Inns
www.vintageinn.co.uk

Harvester
www.harvester.co.uk

Ember
www.emberinns.co.uk
www.emberpubanddining.co.uk

Toby Carvery
www.tobycarvery.co.uk

Crown Carveries
www.crowncarveries.co.uk

Metro Professionals
www.mbplc.com/findapub

Nicholson's
www.nicholsonspubs.co.uk

Premium Country Dining Group
www.mbplc.com/findapub

O'Neill's
www.oneills.co.uk

Alex
www.alexgastro.de

All Bar One
www.allbarone.co.uk

Village Pub & Kitchen
www.villagepubandkitchen.co.uk

Miller & Carter
www.millerandcarter.co.uk

Browns
www.browns-restaurants.co.uk

Innkeeper's Lodge
www.innkeeperslodge.co.uk

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