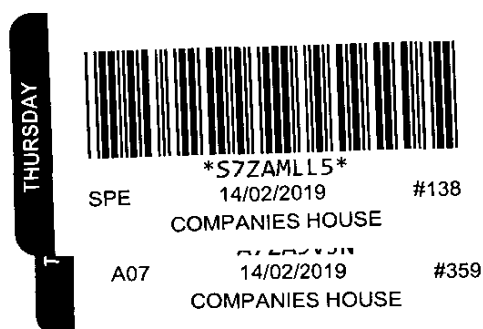


Mitchells & Butlers plc

Annual report and accounts 2018

Registered Number: 04551498



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Financial highlights

Revenue (£m)

£2,152m

2018	2,152
2017**	2,141
2016	2,086
2015	2,101
2014	1,970

Profit before tax (£m)***

£130m

2018	130
2017	77
2016	94
2015	126
2014	123

Adjusted* operating profit (£m)

£303m

2018	303
2017**	308
2016	318
2015	328
2014	313

Adjusted* earnings per share (pence)

34.1p

2018	34.1
2017**	34.4
2016	34.9
2015	35.7
2014	32.6

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

** FY 2017 was a 53 week year. Adjusted 2017 performance is therefore presented on a 52 week comparable basis.

***Includes separately disclosed items.

 **Financial review**
See pages 43 to 45

Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the Strategic report. This can be found as follows:

- Business model on pages 20 to 21.
- Information regarding the following matters can be found on the following pages:
 - Environmental matters on page 37.
 - Employees on pages 35 to 36.
 - Social matters on pages 32 to 37.
 - Respect for human rights on page 37.
 - Anti-corruption and anti-bribery matters on page 62.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 38 to 42, including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on pages 30 to 31.
- The Financial review section on pages 43 to 45 includes, where appropriate, references to, and additional explanations of, amounts included in the accounts.

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

Our focus on our three priority areas of building a more balanced business; instilling a more commercial culture; and driving an innovation agenda has continued to move the business forward over the financial year. The implementation of the second wave of initiatives from our transformation programme has resulted in sustained like-for-like sales growth, continued market outperformance¹ and a return to adjusted profit growth in the second half despite Easter moving into the first half.

Through their hard work, our teams create fantastic guest experiences every day. Here are just a few of them...

¹ As measured by the Coffer Peach business tracker

Miller & Carter, Rickmansworth

Beef is a labour of love at Miller & Carter. We put everything into pursuing the perfect steak, from the field to the butcher's block to the grill, so only the finest, most flavoursome cuts make your plate.

This restaurant, nestled in the charming suburb of Rickmansworth, reopened as a Miller & Carter in 2017 and provides the perfect setting to escape the hustle and bustle of everyday life with the added charm of a working mill.

More customer feedback

*“The birthday
lunch was
a great success –
full of food, fun...
AND a delicious
slice of cake.”*

The Colney Fox, St Albans

Vintage Inns has got everything you need from a country pub; burning log fires in the winter, and beautiful beer gardens in the summer.

The Colney Fox, St Albans was previously called The Watersplash Hotel in the 1940s and 50s, a venue complete with restaurant and swimming pool. Now restored and renamed, The Colney Fox is still full of heritage and tradition whilst also benefiting from recently renovated, comfortable and characterful B&B Innkeeper's Lodge hotel rooms.

More customer feedback

*“Having passed
our exams there
was only one
thing left to do.
Celebrate!”*

Browns, Windsor

Browns is perfect for casual dining or for those special occasions. Together with a bustling brasserie atmosphere and a passionate team, there's a unique restaurant experience that you'll love.

Browns, Windsor is an elegant, spacious building with incredible views across the Thames from the front and the mighty Windsor Castle from the back. You'll find a delightful outdoor balcony with comfy sofas, perfect to enjoy an al fresco lunch as you sit back and watch the boats (and world) go by.

More customer feedback

*“I walked in
as a friend
and left a fairy
godmother.”*

Horniman's at Hays, London

Nicholson's has been delighting guests since 1873 by offering delicious food and drink accompanied by a friendly welcome. It proudly serves classic British pub dishes or seasonal specials alongside an unrivalled collection of cask ales and an exciting range of premium gins in historic city centre pubs.

Horniman's is located in the heart of central London, on the banks of the Thames. It's minutes from Tower Bridge, The Shard, and London Bridge, whilst the Tower of London, The Clink Museum, HMS Belfast, and the bustling Borough Market, are only a short walk away.

More customer feedback

*“Friday lunchtime
with my mates
is such a laugh.
It signals the start
of my weekend...”*

Well placed to deliver continued outperformance'

I am convinced that we have the right elements in place to continue to grow long-term shareholder value.

Bob Ivell Chairman

The performance of the business in the year has been very encouraging with sustained like-for-like sales^a growth; continued outperformance of the market¹ and a return to adjusted operating profit^a growth in the second half.

This has been achieved against the backdrop of increased long-term supply in the eating out market and an unprecedented level of cost headwinds which have resulted in several CVAs and closures amongst our competitors during the period.

The response of our team has been exemplary, with real momentum being created by their single-minded focus on the delivery of our strategic priorities and the second wave of our transformational activity. I would like to record the Board's thanks to our over 44,000 employees, whose spirited response to the external pressures whilst delighting our guests and continuously improving our processes, has been the critical element in our strong performance.

As previously outlined, at the FY 2017 year end, the Board assessed the potential for a dividend payout based on the year's trading and the sector outlook. We were transparent about our criteria for making this assessment, namely that maintenance of the condition and competitiveness of the existing estate was of primary importance for the long-term health of the business and that we would avoid any structural, or permanent, increase in the use of short-term facilities to fund dividends. Having conducted this assessment it has been decided that a full year dividend will not be paid to shareholders this year; we will keep this under review depending on performance and outlook.

On a statutory reporting basis profit before tax and earnings per share grew against last year, albeit these measures are impacted by separately disclosed items.

In September, Stuart Gilliland informed the Board of his intention to step down from the Board to concentrate on his other non-executive roles. Having joined the Board in May 2013, he became Senior Independent Director in February 2015 and has played a key role in the successful development of the business as a valuable, supportive and extremely helpful member of our Board. I would like to wish him every success in his other Board roles. The process of identification and recruitment of a replacement is underway, following which an announcement will be made about both Stuart's leaving date and his replacement. This is likely to be concluded by the end of December 2018. I remain pleased with the composition and balance of skills of the Board.

Our strategy is bearing fruit with like-for-like sales^a growth and market outperformance¹ despite macro-economic uncertainty. I am convinced therefore that we have the right elements in place to continue to grow long-term shareholder value.

Bob Ivell Chairman

Operational highlights

Number of managed sites (at year end)

1,687

2018	1,687
2017	1,695
2016	1,768
2015	1,779
2014	1,775

Average weekly sales per pub (£k)

£24.5k

2018	24.5
2017	23.7
2016	22.7
2015	22.6
2014	23.2

Food sales as a % of total sales

51%

2018	51
2017	51
2016	51
2015	51
2014	51

Business review

See pages 14 to 17

¹ As measured by the Coffer Peach business tracker

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

Brands for all occasions

If you're looking for a drink or a bite to eat you'll find a Mitchells & Butlers brand that's perfect for you. We operate restaurants, bars and pubs all over the UK and Germany and work hard to offer our customers a great choice of quality food and drink, fast and friendly service and excellent value for money. Our success is based on innovation, listening to customer feedback and ensuring our passionate staff are the best trained in the industry.

Alex 41 sites

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

All Bar One 56 sites

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

Browns 25 sites

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

Castle 113 sites

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

Ember Inns 148 sites

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

Harvester 194 sites

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

High Street 81 sites

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

Miller & Carter 105 sites

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

Nicholson's 77 sites

You can really relax at these traditional city and town centre pubs that have been loved since our first pub opened in 1873.

O'Neill's 32 sites

Bars where you really feel at home – whether for a few rounds with mates or a spot of lunch with colleagues.

Premium Country Pubs 127 sites

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

Stonehouse 106 sites

Alongside our traditional carvery, we serve up handmade pizzas made with fresh dough; as well as burgers and pub classics at a great price.

Suburban 238 sites

What unites these pubs is unbeatable value for money, generosity, and big-hearted service. Many of these pubs are Sizzling Pub and Grills.

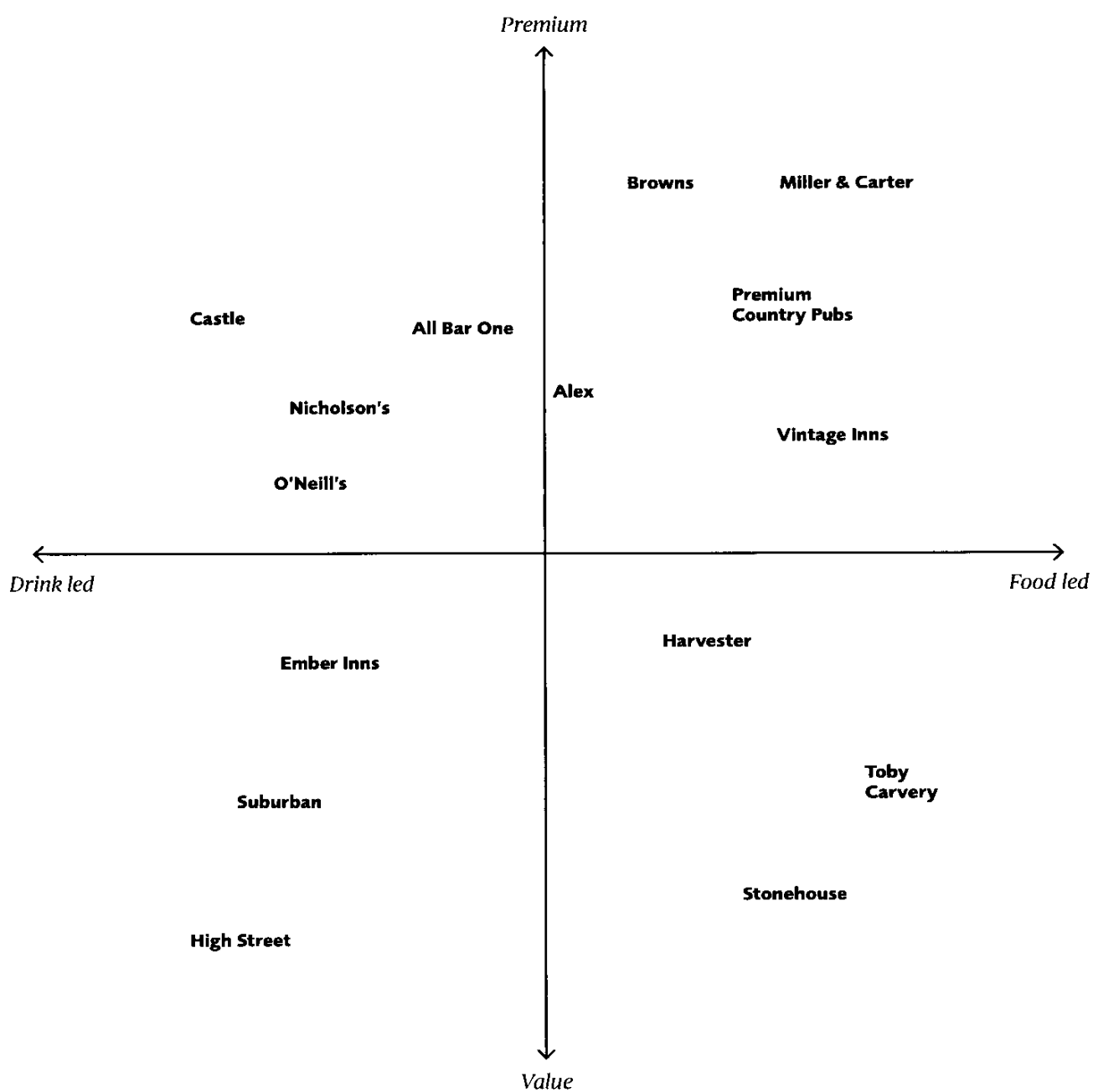
Toby Carvery 158 sites

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

Vintage Inns 186 sites

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

A diverse portfolio of brands



Continued trading above the market average¹ and a return to profit growth^a

I am pleased with the momentum we have built and with the activity that is underway in the business.

Phil Urban Chief Executive

I have been CEO for three years now and over that period we have undergone a lot of change both internally and in the external environment, with the cost headwinds which continue to impact the sector and more recently Company Voluntary Arrangements (CVAs) and closures in casual dining.

When I joined the business, we were in sustained like-for-like sales decline and the business was underperforming on a number of metrics which are key to the success of a hospitality company. Therefore, we embarked on a new strategy which focused on addressing the issues within the business and these fell into three strategic priorities which I discuss in detail later in this review.

In February 2016, we launched a programme of work called Ignite designed to meet these priorities, whose first objective was to get the business back into sustained sales growth and ahead of the market, a target we achieved over 18 months ago and have maintained since.

The second objective was then to stabilise profits and, although FY 2018 adjusted profit before tax^a finished £5m down against last year, our performance in the second half, and the knowledge that there were some exceptional events in the first half, gives me confidence to say that we are now achieving that aspiration.

Our third objective is to return this business to sustained profit growth, which will be no mean feat given the macro environment I describe later, but that is exactly why we have embarked on our Ignite 2 programme of work. The approach we have taken recognises that there is no silver bullet to growing businesses, but instead it is the incremental gains made across several fronts that can bring success. Ignite 2 is a programme of work with a number of different workstreams, grouped under eight broad headings, each led by one of our Executive Directors and a functional expert. We have also set up a project office and a governance routine, to ensure that we all remain focused on extracting as much value as we can from the programme.

Some of the workstreams have already seen their initiatives implemented and value start accruing, whereas others are far longer term, may require net investment this year, and should start paying back from FY 2020 and beyond.

The review that follows updates you on our progress in the year against the three strategic priorities; outlines our current view of the market in which we operate; summarises our corporate social responsibility values; details our financial performance in FY 2018 and updates you on our priorities for FY 2019.

Overall, I am pleased with the momentum we have built and with the activity that is underway within the business. We continue to trade ahead of the market average¹, and our second half adjusted profit^a performance gives us confidence that the business has stabilised. However, the spectre of an uncertain Brexit outcome, and political instability, means that we remain cautious about the short- and medium-term future.

During the year we have maintained a strong trading performance, investing in our estate and mitigating £28m of cost inflation whilst maintaining quality for our guests.

For a second consecutive year like-for-like sales^a growth outperformed the market. We achieved like-for-like sales^a growth of 1.3% in the financial year despite extended periods of snow, unusually hot weather in the summer and England's prolonged success in the FIFA World Cup. The last reported period of like-for-like sales^a growth of 2.2% was free from one-off events and, since the year-end, like-for-like sales^a have continued to grow at 2.2%. Total sales grew by 0.5% on a 52 week basis impacted by disposals made in the prior year.

Profitability in the first half was negatively impacted by snow in particular, resulting in a decline of £8m against last year. However, in the second half, adjusted operating profit^a grew by £3m, despite Easter shifting into the first half, as the momentum from our strategic initiatives continued to gather pace.

Adjusted operating profit^a of £303m was down 1.6% year-on-year on a 52 week basis. On a statutory basis profit before tax of £130m grew against last year impacted by separately disclosed items.

Our strategic priorities

We have maintained our strategic approach with three priority areas focused on repositioning the Company to a stronger competitive position:

- Build a more balanced business
- Instil a more commercial culture
- Drive an innovation agenda

We continued to make strong progress across these three strategic priorities over the year resulting in sustained like-for-like sales growth^a ahead of the market and growth in adjusted operating profit^a in the second half of the financial year.

Build a more balanced business

Our estate comprises 1,750 pubs, bars and restaurants, of which more than 80% are freehold or long-leasehold. Our focus in this area is to optimise the balance of brands across the estate in order to create long-term value. During the year, we continued to improve the quality of the estate through premiumisation and amenity upgrades.

We completed 232 remodels and conversions in FY 2018 (FY 2017 252) and remain on course to deliver a six to seven year cycle of investment, from the eleven to twelve year cycle of previous years. In order to maximise the profit uplift following investment within the financial year, we completed more projects in the first half than in previous years. The in-year benefit from this, coupled with savings made in costs relating to closure, was £3m. Conversions remain focused on the expansion of Miller & Carter, which now consists of 105 sites and continues to perform strongly both in terms of sales growth and returns.

We continued to enhance the amenity of sites through our remodel programme. Remodel projects provide a refreshed environment for sites which remain within the same brand, giving the opportunity both to delight existing, and attract new, guests. The remodel programme provides a vehicle through which brands can continue to evolve and innovate in the highly competitive market in which we operate.

Instil a more commercial culture

We have made progress in developing a more commercial culture across the business over recent years, with a relentless focus on profitability essential in the current environment. Our centralised procurement process allows us to leverage our scale and during the year we mitigated £6m of inflationary costs across food, drink and logistics. In addition, centralised pricing changes have generated a benefit of £5m through benchmarking against local competitors, events pricing and menu psychology.

Labour remains the most significant cost to the business and improving efficiency without compromising on quality is a constant focus. Last year we rolled out new software across all of our UK business to help managers to more effectively deploy labour through more accurate sales forecasting, scheduling recommendations and electronic time management.

We have seen the benefit of embedding this software with in-year cost mitigation of £8m. We will continue to find additional efficiency benefits by focusing on best practice use of the software.

Our focus on online interaction with guests continues with their increasing use of our digital platforms, such as apps and online feedback. Last year we introduced reputation.com – a feedback consolidation tool which enables managers to respond to comments from multiple sources through one system. Through this tool we now respond to 93% of all online feedback and we continue to see the benefits of the personal interaction this platform enables for the guest. In addition, it allows us to gather consumer insight to evolve our brands in line with consumer demands. Since the year end we have increased the average feedback score across the estate to 4 out of 5 reflecting the hard work undertaken in this area.

Revenue by region (FY 2018)

% of sales	
1 Scotland	5%
2 North West	9%
3 North East	3%
4 Yorkshire and Humberside	8%
5 West Midlands	14%
6 East Midlands	5%
7 Wales	4%
8 East of England	7%
9 South West	7%
10 South East (excluding London)	15%
11 London	23%

Drive an innovation agenda

Technological developments are constantly changing the way consumers behave and our digital strategy is designed to enable us to benefit from those changes and to satisfy guests' changing needs. A mobile payment option is available in all of our brands, allowing guests to pay their bill on their mobile device. In addition, we continue to refine our order at table facility where guests can order food and drink from their mobile device at their table rather than having to queue at the bar. This facility is currently on trial in several O'Neill's sites and the results show both a demand for, and a benefit from, introducing this technology across more of the business. As a result of this successful trial we plan to roll out the technology further across O'Neill's and to four additional brands during FY 2019.

Digital development provides us with the opportunity to better understand and enhance our guests' experiences. An example of this is free wireless charging stations which we have trialled in a selection of our city centre locations with extremely positive guest feedback. We have also developed our customer relationship management platform which enables more targeted and personalised communication with guests, the result of which has been increased conversions to bookings.

Ignite

Ignite is the internal name used for our focused programme of work underpinning the longer-term strategy. The first phase of Ignite launched in FY 2016 and focused primarily on returning the business to sustained like-for-like sales^a growth. Having achieved this aim, work began on Ignite 2, a second wave of initiatives which continue the focus on sales growth and also incorporate more efficiency and cost-saving workstreams aimed at improving profitability in the face of industry-wide cost headwinds. This second wave of initiatives required an in-depth, cross-functional analysis of processes and, in order to coordinate this work, a project office has been set up to support and govern the various workstreams. This focus will ensure that the maximum value can be extracted from the programme of work. Several initiatives are already in place within the business and are delivering value, whereas others are longer-term projects which will require investment during the financial year to begin delivering returns from FY 2020.

Examples of live Ignite 2 initiatives include the formation of a central expert labour deployment team who visit sites which are performing below the required labour scheduling accuracy. This team provides practical support and system expertise and the result has been a material improvement in performance of the 210 sites visited in the year.

We have also introduced enhancements to our booking platforms by reducing the number of steps a guest needs to take to book a table which has improved our booking conversions. In addition, we have introduced the recommendation of alternative venues when there is no availability at the selected site. Take-up of alternative site bookings equates to c.13,000 bookings per year.

Following a successful trial, we have, from the start of FY 2019, removed cash expenditure for sundry expenses such as flowers, taxis, emergency food purchases etc. from our businesses; the aims of this are to increase visibility and therefore control over expenses of this nature and also to identify opportunities to leverage our scale to achieve a better price for these items. We have also introduced an interrogative software tool which analyses all transactional till data and identifies patterns of behaviour which require further investigation. We have a team of people trained in the software who support our managers in then taking action if required.

Longer-term projects include a system update and change of processes around our stock management. Last financial year we updated our stock system, a complicated project which impacted each of our businesses, a number of central teams and also required the cooperation of our suppliers. The benefits of the system upgrade are significant; it allows us to automate tasks within the business which currently take up a large amount of management time. For example, remote counting will facilitate barcode scan stock taking which will significantly reduce the amount of time taken to perform a stock count and will automatically load the results into the system. Prep and par is a tool which will aid kitchen staff with identifying what to prepare for each session of the day based on site specific trading patterns and forecasts. This system, particularly when used in combination with auto-ordering, will help to reduce waste and instances of menu items being unavailable, improving guest experience.

As digital developments gather pace, it is important to ensure that we are well positioned for future developments. Therefore, we are undertaking a significant piece of work to consolidate our data onto one platform which allows integration into third-party technologies. This work will provide the foundation for fast adoption of future digital development opportunities.

The Ignite programme of work is designed to encourage the challenge of boundaries on many fronts, and we have been exploring opportunities to work with third parties as a way to accelerate innovation. We have entered into a formal agreement with Ego Restaurants, who already successfully operate their Mediterranean offer in a few of our sites within the leasehold estate, investing in the brand's parent company and agreeing a pipeline of our sites to facilitate the growth of the proposition. Further to this we will open the first Miller & Carter site in Germany, supported by the Alex team, in 2019 which provides us with an opportunity to test another market given the success of the brand in the UK.

People

We have a fantastic team of over 44,000 people across the business who are crucial to the all-important experiences which guests have with us. Attracting, training and retaining high-quality staff is more important than ever and despite the numerous initiatives we have introduced over the course of the financial year, we are pleased that our management level turnover has improved by 2.6ppts. This is particularly important during a period of change as managers provide stability to the teams on site. Our kitchen management turnover has reduced by 3.1ppts since last year which is reassuring in light of the challenges that any changes in the free movement of labour resulting from Brexit might bring. Overall staff turnover has increased by 2ppts, driven by hourly paid staff, reflecting the heightened competitiveness of this sector of the labour market. Engagement scores have also improved across all cohorts over the year. In terms of training, we are proud of the work we have done on our apprentice scheme which we believe will provide excellent future talent to our organisation. We are delighted to now have 1,800 apprentices taking part in our schemes which range from front and back of house roles in our pubs and restaurants to corporate roles in our head office.

Current trading and outlook

In the first seven weeks of the new financial year like-for-like sales^a have grown by 2.2%.

A return to adjusted operating profit^a growth in the second half of the last financial year was a significant milestone for the Company. With like-for-like sales^a growth consistently ahead of the market and our focus on efficiency initiatives, we are confident that we are addressing the elements of performance which are within our control. However, the market in which we operate remains challenging and a high level of macro uncertainties remain. We will remain focused on maintaining a strong balance sheet and reducing our net debt whilst positioning the business to generate long-term shareholder value.

Phil Urban Chief Executive

¹ As measured by the Coffer Peach business tracker

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

Outperforming in a challenging economic and political environment

Market trends suggest that consumers are eating out less frequently but spending more when they do, supporting our strategy of premiumisation and focus on providing opportunities for guests to 'trade up' menus.

The external environment

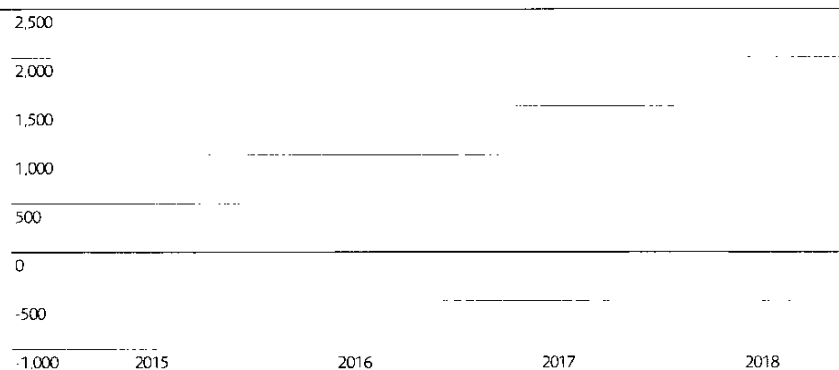
The eating out industry has faced a number of challenges over recent years. The number of restaurants in the UK increased by 11% over the past five years, outstripping demand growth and resulting in pressure on sales per site across the sector. Over the same period, the sector has continued to face strong cost headwinds with the combined result of these two factors being a number of CVAs and business closures amongst our competitors in the past year. In the twelve months to September 2018, the number of restaurants in operation in the UK fell by 1.0% reflecting the competitive pressure in this highly fragmented sector.

From a demand perspective there have been several economic factors impacting consumer confidence including Brexit, political uncertainty and limited growth in real wages. Despite this, turnover in the eating out market as a whole continues to grow, with forecast growth of 1.5% in 2018 indicating that leisure spend is currently being protected to some extent by consumers. Market trends suggest that consumers are eating out less frequently but spending more when they do, supporting our strategy of premiumisation and focus on providing opportunities for guests to 'trade up' menus.

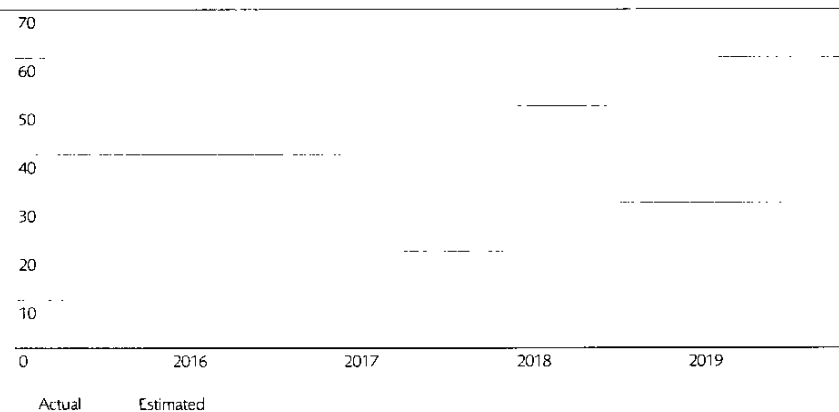
The impact of Brexit remains uncertain. Aside from macro-economic consequences, the specific areas of material impact for our business are increases in costs and reduction of availability of goods, and implications of restrictions on the free movement of labour. On exit of the EU, cost of goods would be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling. From an employment perspective, at a time when unemployment levels are at a 40-year low, any restriction on the free movement of labour would have a material impact on both the cost of labour and access to talent. Currently across our business, 13% of staff are non-British EU nationals, with the proportion fluctuating by geographic region. We remain close to these issues whilst we await further details.

Net UK restaurant openings (MAT)

Source: CGA Outlet Index

**UK eating out market**

Source: MCA Eating Out in the UK Report 2018

£2bnMitchells & Butlers
share of market**£57bn**
Turnover**Mitchells & Butlers inflationary costs £m**

 **Our risks and uncertainties**
See pages 38 to 42

Creating value for our stakeholders

Through the people who work for us, our well-invested freehold estate and the high-quality practices we adopt, our brands delight our guests again and again, creating value for all our stakeholders.

Value proposition

We create value for our stakeholders through the delivery of quality eating and drinking experiences. Last year, we served 120 million meals and 386 million drinks across our brands, providing us with the opportunity to engage with guests on a daily basis.

Guest experience is a critical element of our brands' offers. We use a feedback consolidation tool, reputation.com, to provide us with the insight to continuously evolve our offers to suit our guests' needs.

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

Estate

In total we own 1,750 pubs, bars and restaurants, of which over 80% are owned under a freehold or long leasehold. The estate is predominantly UK-based, and is nationwide although most heavily concentrated in London and the South East, the West Midlands and the North West. We also have sites in Germany within our Alex brand portfolio.

This array of high-quality locations, matched with our diverse brand portfolio, enables us to match the right concept to the right trading asset, as well as offering a strong pipeline for future conversions. Our property has a value of £4.4bn as at the end of FY 2018, offering a stable and long-term opportunity for value creation.

People

We have more than 44,000 employees across our pubs, bars and restaurants and in our Retail Support Centre, who are critical to delivering outstanding experiences to our guests. Our people include those with strong business and sector experience, as well as new and enthusiastic young talent who we look to develop through our apprenticeship programmes. Adopting a structured approach to recruitment, driving high levels of engagement with our existing teams and offering development and learning opportunities are key elements of our people strategy.

Practices

Practices refers to the ways in which we operate in the best way to generate value throughout the business. This encompasses our use of scale for purchasing and operational efficiency; sharing of ideas between similar brands and concepts within the portfolio; adherence to the highest operational standards; and an increasing use of technology to enhance guest experiences. We continuously strive to move forward in all of these areas in order to maximise the value of the Company.

Estate

In total we own 1,750 pubs, bars and restaurants, of which over 80% are owned under a freehold or long leasehold.



Building a more balanced business
See pages 24 to 25

People

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



Instilling a more commercial culture
See pages 26 to 27

Guests

Brands

Practices

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



Driving an innovation agenda
See pages 28 to 29

Creating value

Our business model creates sustainable value for our stakeholders.



For shareholders

Total shareholder return
See page 87

For the environment

Corporate social responsibility
See pages 32 to 37

For suppliers

Corporate social responsibility
See pages 32 to 37

For employees

Corporate social responsibility
See pages 32 to 37

Maximising returns

Our strategy aims to deliver long-term sustainable shareholder value through organic growth. Our priority is to maximise the return generated from our existing assets, through ensuring we have a balanced estate; instilling a more commercial culture; and driving an innovation agenda.

1. Build a more balanced business

Rationale

- To generate maximum value from our estate of largely freehold-backed properties.
- To ensure we are exposed to the right market segments by having the correct trading brand or concept in each outlet, based on location, site characteristics and local demographics.
- To maintain the amenity level of the estate such that we operate safely and remain competitive to guests, alongside meeting cash flow commitments.

FY 2018 progress

- Maintained level of investment in capital activity at £171m.
- Completed 239 capital projects in the year, maintaining a six to seven year investment cycle.
- Continued investment in growth brand Miller & Carter with 105 sites now open.
- Completed more projects in H1 than in previous years with less closure weeks resulting in £3m in-year benefit.
- Acquired seven sites and disposed of five sites which did not fit into our estate strategy.

FY 2019 priorities

- Focus on enhancing asset value through remodelling or converting sites where we believe increased value can be unlocked.
- Make further selective acquisitions where we feel they add value to the estate, and disposals where we feel we have extracted maximum value.
- Further explore investment opportunities with third parties.

Link to key risks

1A, 2A

 **Risks and uncertainties**
See pages 38 to 42

Link to KPIs

2, 3, 4, 5

 **Key performance indicators**
See pages 30 to 31

2. Instil a more commercial culture

Rationale

- To ensure we focus on the delivery of profitable sales.
- To engage our teams in delivering outstanding guest experiences.
- To act quickly and decisively to remain competitive in our fast-changing marketplace.

FY 2018 progress

- Mitigation of £28m of food, drink and logistics cost headwinds through continued efficiency savings.
- Generated £5m benefit from centralised pricing changes.
- New labour rostering system fully embedded, allowing managers to improve sales forecasting and enhance deployment of labour resulting in an £8m in-year benefit.
- Team formed to support sites performing below required labour scheduling accuracy.
- Further advances in guest engagement with social media response rate of 93% (FY 2017 83%) and net promoter score also up 3 percentage points.
- System update and change of processes around our stock management.
- Removal of cash expenditure for sundry expenses trialled to increase visibility, control and identify scale purchasing opportunities.

FY 2019 priorities

- Fully roll out and embed the new stock auto-ordering system, improving control through a reduction in waste, fewer stock outages and a more efficient stock take process.
- Removal of all unprofitable hours throughout the business.
- Increase spend per head through tailored pricing, menu psychology and upselling.
- Continue to leverage scale through central procurement and roll out of cash expenditure removal across all businesses.

Link to key risks

1A, 1B, 2A, 2D, 2G

 **Risks and uncertainties**
See pages 38 to 42

Link to KPIs

1, 2, 3, 5

 **Key performance indicators**
See pages 30 to 31

3. Drive an innovation agenda

Rationale

- To ensure that our brands and formats remain fresh and relevant within their market segments.
- To leverage the increasing role technology can play in improving efficiency and guest experience.
- To execute a digital strategy to engage with consumers across a variety of platforms.
- To facilitate new product and concept development.

FY 2018 progress

- Expanded our involvement with delivery partners, 131 sites are now live with Deliveroo or Just Eat.
- Continued to bring guest technology to the customer through order and pay at table as well as the installation of wireless charging pads in some of our All Bar One businesses.
- Increased the sophistication of our customer relationship management capability, with the ability to target the right customers with the right offers through our digital channels.

FY 2019 priorities

- Consolidate all data onto one platform to facilitate increased use of technology within our business.
- Further develop guest loyalty initiatives and extend roll out to more brands.
- Roll out our order at table technology across more O'Neill's sites and to four additional brands
- Continue to evolve and develop all of our brands and concepts.

Link to key risks

1A, 2B, 2C

 **Risks and uncertainties**
See pages 38 to 42

Link to KPIs

2, 3, 5

 **Key performance indicators**
See pages 30 to 31

Building a more balanced business

We aim to generate maximum value from our estate by ensuring we have the right brand in the right location. During the year we invested £171m in capital activity, completing a total of 239 projects as well as investing in the maintenance and infrastructure of our businesses.

We continued the premiumisation of our estate through investment in *Miller & Carter* which saw a further 21 sites open in the year, taking the brand to 105 restaurants in total.

This means we have kept pace with our aim to invest in each of our sites every six to seven years, ensuring we upgrade and maintain the look and feel in an ever more competitive market. Our returns from this investment are strong too, with return on capital^a of 27% on our remodel projects and 23% on our conversion and acquisition projects completed in the year.

As a direct result of our transformation programme, we successfully completed more projects in the first half of the year than previously resulting in an increase in the number of trading weeks post investment. This, in addition to a reduction in the time and cost associated with closure, delivered a total in-year benefit of £3m.

In the coming year, we will maintain this investment cycle and look to unlock further value from our existing assets through our remodel programme.

Instilling a more commercial culture

Engaged people with the right skills and means to both delight guests and deliver profitable growth remain essential to our strategy.

With unrelenting external cost pressures, we are equipping our managers with the tools to deliver efficiencies within the business. These efficiencies include enhanced labour deployment through a new rostering system, improved stock control and reduced petty cash spend through greater access to central suppliers.

Labour remains our most significant cost. The new rostering system helps our General Managers more effectively deploy labour through better sales forecasting, scheduling recommendations and electronic time management. The embedding of this software has already resulted in an in-year cost mitigation of £8m. The next stage, identified by one of our Ignite workstreams, was the formation of a team of labour scheduling experts who work with the sites that need further support to extract the benefit from the system. 210 sites have been visited this year by the team releasing an annualised cost benefit of £1.5m.

Our guest focus, aided by our feedback consolidation tool, reputation.com, has also continued to improve with net promoter score growing by three points during the year, against the backdrop of like-for-like sales growth and market outperformance.

Driving an innovation agenda

Delivering our digital strategy is still at the forefront of our focus as we continue to bring technology to the guest experience through our brand apps, order and pay at table facilities, and the installation of wireless charging pads.

We have also increased our food delivery capability in the year across Deliveroo and Just Eat, with 131 sites now live across one of the two platforms.

Our customer relationship management capability has increased in sophistication as we are now able to target specific groups of customers through digital channels by tailoring messages and offers to better meet the needs of individuals.

In addition, one of our Ignite teams identified improvements to our booking platforms which have been introduced. These include reducing the number of steps a guest needs to take to book a table on-line resulting in improved booking conversions; and offering alternative venue recommendations when there is no availability at the initially selected site. We estimate that this has resulted in an annualised figure of around 13,000 additional booking conversions.

Measuring performance

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

We have made a change to the KPIs used to measure the business performance in the current financial year, replacing adjusted EPS with adjusted operating profit. The change was made to align KPIs more closely with the changes detailed in the remuneration report to long-term incentive measures.

1. Staff turnover

Definition

The number of leavers in our retail businesses, expressed as a percentage of average retail employees. This like-for-like measure excludes site management.

FY 2018 performance

Retail staff turnover increased by 2ppts to 84% with the increase being driven by hourly paid team members reflecting the heightened competitiveness of this sector of the labour market.

Despite this, turnover across all management cohorts improved from the prior year, which is important for overall stability going forward.

84%

	%
2018	84
2017	82
2016	86
2015	82
2014	83

Link to strategy

2

 **Our strategy**
See pages 22 to 23

2. Net promoter score

Definition

The net promoter score for a pub, bar or restaurant is defined as the percentage of responses where we score 9 or 10 out of 10, less the percentage of responses where we score 0 to 6 out of 10 based on the question "how likely are you to recommend this pub to a friend and/or relative?"

FY 2018 performance

Net promoter score for FY 2018 was 62 which has increased from a score of 59 in FY 2017.

The improvement in the score has been driven by a continued improvement in guest care standards as well as our focus on personalised responses to guest feedback with 93% of all social media comments being responded to (FY 2017 83%).

62

2018	62
2017	59
2016	51
2015	65
2014	63

Link to strategy

1, 2, 3

 **Our strategy**
See pages 22 to 23

3. Like-for-like sales^a

Definition

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.

FY 2018 performance

Like-for-like sales^a rose by 1.3% in FY 2018. This sales performance was negatively impacted by extreme weather and the World Cup but remained consistently ahead of the market when measured against the Coffer Peach business tracker.

1.3%

	%
2018	1.3
2017	1.8
2016	-0.8
2015	0.8
2014	0.6

Link to strategy

1, 2, 3

 **Our strategy**
See pages 22 to 23

4. Return on expansionary capital^a

Definition

Expansionary capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment.

FY 2018 performance

The EBITDA return on all conversion and acquisition capital invested over the last four years was 16% (FY 2017 18%). This is due to a higher proportion of expansionary capital being spent on our food-led brands, which were more impacted by the extreme weather in FY 2018. Projects since the start of the most recent financial year generated a return of 23%.

16%

	%
2018	16
2017	18
2016	20
2015	18
2014	16

Link to strategy

1

 **Our strategy**
See pages 22 to 23

5. Adjusted operating profit^a

Definition

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items (as detailed in note 2.2 of the financial statements) are those which are separately disclosed by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

FY 2018 performance

Adjusted operating profit^a for the year of £303m was 1.6% down on the prior year on a 52 week basis. However in the second half, adjusted operating profit grew by 1.9%, despite Easter shifting into the first half, as the momentum from our strategic initiatives continues to gather pace.

£303m

	£m
2018	303
2017	314
2016	318
2015	328
2014	313

Link to strategy

1, 2, 3

 **Our strategy**
See pages 22 to 23

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

Brands people trust

Food and drink

- We have committed to Public Health England's Sugar Reduction programme for our family brands Harvester, Toby Carvery, Sizzling Pubs and Stonehouse.
- We are a national sponsor of Best Bar None, an accreditation scheme promoting responsible management.
- 98% of our businesses have been rated good or very good for food hygiene.
- Browns continues to serve 100% British Red Tractor Farm Assured beef through its Integrated Beef Supply Programme.
- 100% of our shell on eggs are produced from free range hens.

Food sourcing

We have a responsibility to our guests to ensure that the food we source has been produced in a sustainable and ethical manner, having due regard for high standards of animal welfare.

Our Sourcing Policy has been developed to ensure that the procurement of all meat, poultry and finfish used within our business is carried out in accordance with the Company's ethical standards that operate across all our brands. Working closely with our suppliers, we aim to optimise animal welfare standards to meet business needs and satisfy guest requirements.

Guest insight research that we conducted has highlighted key areas that matter to our guests in terms of animal welfare, environmental impact and social equity. Our Sourcing Policy addresses these issues and confirms our approach to the achievement of the optimal standards possible for each of our brands. Led by a cross-functional team, reporting directly to the Executive Committee, the Sourcing Policy continues to evolve and is reviewed on a regular basis, to incorporate any changes in legislation, procurement policies or business needs.

Our key achievements in FY 2018:

- Browns continues to serve guests with 100% British Red Tractor Farm Assured beef, produced through their very own Browns Integrated Beef Supply programme. This initiative takes calves from known Red Tractor Farm Assured dairy farms, which are reared on specialist calf units, through to the finishing stage on selected assured farms, contracted to supply Mitchells & Butlers. In recognition of the great quality beef produced from this scheme, Browns has won Silver and Bronze awards at the World Steak Challenge in 2017 and 2018.
- Updates to the Farm Animal Welfare and Sourcing Policy have been shared with our core food suppliers at the Company's annual food and drink supplier conference, most recently held in April 2018.
- The Mitchells & Butlers Antibiotics Policy has been updated to prohibit the prophylactic use of antibiotics.
- We are gathering data from all our suppliers who procure eggs, liquid eggs or egg derivatives for inclusion within our products, to ascertain the production system in place for laying hens. The information gathered allows Mitchells & Butlers to assess how we can progress to a 100% cage free status for laying hens. This assists Mitchells & Butlers in delivering its objective of extending the procurement of shell on eggs from cage free hens, to include egg products, and to complete this transition by 2025, subject to product availability and commercial negotiations.
- Mitchells & Butlers continues to engage with Compassion in World Farming (CIWF) and Farm Animal Investment Risk and Return (FAIRR) on matters relating to welfare and antibiotic usage, as well as holding preliminary meetings with The Humane Society and the National Farmers Union on our sourcing strategy.
- After attending the CIWF forum on the Better Chicken Commitment, Mitchells & Butlers is holding further meetings with its poultry suppliers and CIWF, to assess the impact of this initiative on current production models.

More details on our food Sourcing Policy can be found at www.mbplc.com/responsibility/goodfood

Nutrition

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

We publish the nutritional information for our menus on our websites for All Bar One, Ember Inns, Harvester, Premium Country Pubs, Toby Carvery, Suburban Pubs and Vintage Inns. For example, this year we launched specific menus in All Bar One for Veganuary and a wellness campaign.

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

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

Allergens

We are committed to ensuring that customers who suffer from allergies are provided with the information they need to make an informed choice about the suitability of the food we serve for their own circumstances. We provide allergen information on our brand websites and include filters to help customers find the dishes which do not contain any filtered allergens. We continually review our service cycle and retail staff training on allergens to improve the customer experience.

Salt

Over three years ago, our brands replaced standard salt used in salt shakers on tables, and to season food back of house, with a mineral salt which contains 15% less sodium than standard salt and which is high in magnesium. This change has helped us deliver on our commitment to the Government Responsibility Deal pledge to support and enable consumers to reduce their dietary salt intake.

Sugar

We continue to engage actively with Public Health England (PHE) and our suppliers to meet the sugar reduction targets set by PHE in 2017. This year we have reported our Year One data and are working towards a further sugar reduction in our top selling desserts for 2019.

This year we have committed to Public Health England's Sugar Reduction Programme for our family brands Harvester, Toby Carvery, Sizzling Pubs and Stonehouse. We are focusing on reducing sugar in some of our higher sugar desserts through dish reformulation. Whilst we make these changes we aim to support our customers in making healthier choices by providing a choice of dishes, including lower sugar and calorie options, and by providing nutritional information on many of our brand websites.

This year, in line with the introduction of the Government Soft Drinks Sugar Levy, we have proactively reduced the number of sugary products in our soft drinks ranges and introduced additional healthier soft drink choices. Working closely with our suppliers, we have replaced many added sugar soft drinks with new low and no sugar reformulations. Over 90% of our soft drinks are exempt from the levy. We will continue to offer our guests choice from a selection of soft drinks. Where our products incur the levy, we will pass it on to the customer, to encourage consumers towards healthier alternatives.

Signposting healthier options

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

Several of our brands have increased their range of healthier options, and supported these with nutritional and health information, to make them easily identifiable to the health-conscious guest. Examples include Toby Carvery's signposting of a range of menu options which are low in saturated fat and contain 500 calories or fewer, and All Bar One's range of calorie-controlled options, with the energy content published on the menu copy, whilst dishes high in protein, omega-3 and 'lighter' options are also signposted.

Responsibility Deal partnership

We are committed partners of the Government's Responsibility Deal, which is now under the remit of Public Health England, and remain focused on delivering our pledges relating to artificial trans fats and salt reduction.

Children's menus

In response to the growing concern over childhood obesity, we developed our own Children's Food Standards that were implemented across all brands from Spring 2016. We continue to optimise our children's offer and updated the standards with new public health guidance following the Government's Childhood Obesity Plan.

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

Food safety

We place great importance on the Food Hygiene Ratings Scores of our pubs, bars and restaurants and we have made a commitment to increase the number of our businesses that achieve a 4 or 5-star Food Hygiene Rating, taking a zero-tolerance approach to anything below. It is pleasing that at the year end, 98% of our sites were rated either good or very good for food hygiene, a further improvement on our strong performance last year.

Mitchells & Butlers is fully engaged with the Food Standards Agency and supports the Regulating Our Future initiative. We continue to remain involved with the Food Standards Agency and their development and shaping of the future of regulation and food safety enforcement in England, Wales and Northern Ireland.

The Company supports the development of the UK Hospitality Assured Catering Scheme and wishes to see a robust, fair and sustainably funded scheme that informs Food Hygiene Ratings standards.

Health and safety

The well-being of all employees and guests is of paramount concern to Mitchells & Butlers. The continuous cycle of improvements has been maintained and we continue to deliver an industry leading RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) position in respect of our guests and our employees.

Serving alcohol responsibly

The responsible operation of our pubs and restaurants is central to the culture of our business. Our Alcohol and Social Responsibility Policy has now been in place for over a decade, and lays down best practice about serving alcohol responsibly in England and Wales, and Scotland, including team training, responsible pricing and promotions.

Mitchells & Butlers operates the Challenge 21 policy in all our businesses across England and Wales (and a Challenge 25 policy in our Scottish businesses). The policy requires that any guest attempting to buy alcohol who appears under the age of 21, or 25 in Scotland, must provide an acceptable form of proof of age ID to confirm that they are over 18, before they can be served. This policy forms part of our regular training for our employees on their responsibilities for serving alcohol.

We strongly support local 'Pubwatch' schemes and crime prevention initiatives and aim to participate fully in the drive to promote responsible drinking. It is Company policy for all managers to join and support a local 'Pubwatch' scheme if one exists. We also actively support our managers in participating in local Best Bar None schemes and are an official sponsor of Best Bar None nationally. Best Bar None is a national award scheme supported by the Home Office aimed at promoting responsible management and operation of alcohol licensed premises.

We are a major funder of Drinkaware Trust, the aim of which is to promote responsible drinking by finding innovative ways to challenge the national drinking culture. In turn, this helps reduce alcohol misuse and minimise alcohol-related harm.

People

- Named Best Place to Work at HR Distinction Awards.
- We saw an all time high in Mitchells & Butlers' Your Say employee engagement survey with engagement scores improving or being sustained across all survey groups.
- At Mitchells & Butlers Group level, our overall median Gender Pay Gap has reduced to 4.7%, from the 5.2% level we reported last year.
- Winner of Best Youth Engagement and Employment category at HR Excellence Awards.
- We celebrated our 1,000th apprentice completing the programme.

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

Listening to our people

Our annual employee engagement survey 'Your Say' is an integral part of our calendar. It enables our employees to share their views and demonstrates how much we value their feedback.

This year we saw an all-time high in our results, with engagement scores improving or being sustained across all survey groups. We continue to see a huge step forward in how much our employees see our PRIDE (Passion, Respect, Innovation, Drive and Engagement) values are living across Mitchells & Butlers. Our colleagues also told us that they value flexibility, work life balance, being a valued member of their respective teams, and working in a fun and friendly environment as important factors in driving engagement. Following the survey, employees in each business or department create an action plan specific to their team results.

Gender pay gap

At Mitchells & Butlers we work hard to ensure that everyone across the organisation is treated equally. We remain committed to attracting and retaining the very best talent and believe in creating job opportunities for everyone regardless of gender. As a result, we continue to build a culture that values our differences and embraces them as strengths, to drive our business forward and nurture a workplace where our people can love every moment.

At Mitchells & Butlers Group level, our overall median Gender Pay Gap has reduced to 4.7%, from the 5.2% level we reported last year. We have a mean pay gap of 7.4% versus last year's gap of 8.1%, both of these figures comparing favourably with the national average median pay gap which stands at 18.4% and the national average mean pay gap of 17.4%.

Mitchells & Butlers is a well-balanced business and overall there is a broadly even split between males and females across our employee base. Our gender pay gap is primarily a result of there being a greater proportion of men in senior management roles, as well as in roles that attract higher salaries or bonus payments.

The 2018 reduction in the mean pay gap is predominantly due to increases in base pay rates for hourly paid retail team members, where there is a higher proportion of female employees. The pay increases applicable to this group were higher in percentage terms than for more senior salaried roles and accounted for 0.4% of the overall reduction. The remaining reduction in the pay gap is due to the impact of leavers and joiners with females joining at higher pay rates than those leaving.

To ensure we continue our focus on creating a diverse workforce we have been working on several initiatives:

- We have established a Diversity and Inclusion Steering Group to develop, promote and monitor our overall diversity and inclusion agenda;
- We are reviewing our business practices, policies and procedures to further enhance flexibility and inclusivity in the workplace;
- We have hosted a Careers & Development Marketplace for our Retail Support Centre colleagues to ensure we are empowering our employees to understand and explore the job roles and training opportunities available to them; and
- We have developed our employee value proposition, known as our People Promise, to support our wider recruitment strategy. The People Promise is an explanation of what is unique and special about Mitchells & Butlers' offering as an employer, based on feedback and insights from our employees about what they value the most.

Our full Gender Pay Gap report can be found at:

www.mbplc.com/investors/businessconduct/genderpaygapreporting

Diversity

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

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

The following table sets out our diversity balance as between men and women at the end of FY 2018.

	Men	Women
Directors	10	1
Other senior managers	26	10
All employees	21,434	23,252

Reward and recognition

We acknowledge the importance of rewards and how important these tools are in recognising the hard work and dedication of our people. Pickaperk, our benefits platform, continues to be popular with our employees, with a spend on discounted goods of £1.92m in FY 2018, an increase of £310k from the previous year.

Many of our employees continue to rate the 'Dine with Us' programme as their favourite benefit, where they can access their employee discount digitally when they eat in one of our businesses. This remains at 33% for the employee and up to five of their guests.

Over 14,000 employees have received an award recognising their service to the business. Awards are made to employees for achieving service milestones between one year and 45 years. Around a further 1,700 have been recognised across the year with specific, ad hoc acknowledgements for their contribution for a job well done.

During the year, our Reward team has been focusing on developing and broadening our Wellbeing programme. Several members of the Reward team completed the Mental Health at Work First Aid course and work is ongoing to develop this initiative throughout the wider business. Additionally, we are developing a Wellbeing Hub at our Retail Support Centre as a space for employees to use for a variety of activities such as a book swap, peaceful space and mindfulness. Our Health Age programme will be rolled out further to help support our employees understand their own 'health age' and provide proactive information for the employees to make changes to their diet and lifestyle if they wish. Finally, we have launched a benefit with Neyber, who provide financial wellbeing support to our employees.

Nurturing and developing young talent

We have continued to expand our successful apprentice programmes over the last year. In addition to offering apprenticeships nationwide in the majority of our managed pubs, bars and restaurants, we have extended our programmes to include intermediate and higher-level apprenticeships in our Retail Support Centre for our corporate employees. We have developed a series of learning pathways, which mean our apprentices can gain a nationally recognised qualification, transferable career skills alongside on and off the job training. Hospitality is one of the few industries where you can very quickly progress from an apprenticeship into a management role, thereby helping us develop a talent pipeline and apprenticeship scheme to support our business today and for future years.

In recognition of our apprentice activity and its impact, the Company was recognised by winning a British Institute of Innkeeping National Innovation and Training Award and the Best Youth Engagement and Employment category at the HR Excellence and HR Distinction Awards.

Our Chefs' Academy is our primary apprenticeship programme to develop culinary skills and it continues to grow in both reach and reputation. In total, 222 chefs have commenced their learning in FY 2018 making Chefs' Academy one of the largest workshop supported commis chef apprenticeship schemes in the UK. Now in its second year of delivery, the business is feeling the benefits of the programme, with many graduates already being promoted into Kitchen Manager or Head Chef roles and with a number being awarded divisional accolades such as Head Chef of the Year. The business has also now launched an Advanced Chefs' Academy programme which aims to further develop culinary skills and also focuses on the managerial and leadership capabilities needed to run a highly professional and successful kitchen. Of the total number of learner starters this year, 39 have commenced this advanced programme.

In addition, a further 800 young people have joined our business on hospitality apprenticeships this year and over 1,200 of our current employees have enrolled onto one of the apprenticeship opportunities open to them. We are also delighted to see over 625 employees successfully complete their first apprenticeship in 2018 and we celebrated our 1,000th apprentice completing the programme. Mitchells & Butlers now has c.1,800 active apprentices within the organisation and we are aspiring to add a further 3,000 apprenticeship starters in 2019.

Mitchells & Butlers now offers apprenticeship opportunities from Level 2 through to Level 7, which allows a 16-year-old school leaver to join us on an intermediate apprenticeship and progress through a range of qualifications culminating in a BA (Hons) degree.

We understand that there is not one learning pathway which fits all and, therefore, we are confident that we offer a true alternative to a traditional academic route; and that we have the building blocks in place to help produce our leaders of the future.

Communities

- Over a three year partnership we have raised over £34,000 for Birmingham Children's Hospital.
- On Armed Forces Day Toby Carvery donated over 6,270 meals to military personnel.
- All Bar One donated over £49,000 to homeless charity, Shelter.

We are committed to being a good neighbour and a responsible contributor to society, locally and nationally, by supporting our communities. We support our employees and businesses across a spectrum of charitable activities and fundraising, enabling us to build strong relationships with our guests, our colleagues and our neighbours while giving back to the communities in which we trade.

Employee donations programme

The employee donations programme helps individual Mitchells & Butlers' employees (and retired employees) support a personal charity event or challenge of their choice. This year we have donated around £14,000 through this initiative, to a large number of local and national causes including Aidan's Elephants, MIND, British Heart Foundation, Macmillan Cancer, Shelter, MS UK, Alzheimer's Society and many more.

Payroll Giving

We have re-launched our Payroll Giving programme with a new provider, which enables employees to donate to their chosen charity direct from their pay. The Company has committed to paying the administration fee to process each employee's donation, so each charity gets the benefit of the full donation amount. Employees receive tax relief on the donation.

Big hearted brands, proud to serve those who serve

In June, Toby Carvery showed its support for the armed forces by offering all military personnel a free carvery meal on Armed Forces Day. The offer was open to all military personnel, from serving troops and reserves to veterans and cadets and over 6,270 meals were donated by Toby Carvery teams across the country.

Again the RNLI and Nicholson's pubs joined forces to promote the charity's Respect the Water campaign. Nicholson's helped to spread the safety messages as well as donating 50p from every Ocean Fish & Chips dish sold, to the RNLI to generate over £35,000 of fundraising for the charity.

With millions of people every year struggling with bad housing or homelessness, All Bar One has been working with Shelter since 2016 to help support the charity's work offering advice, support and legal services. All Bar One supported Shelter by donating 50p from every special Shelter dish sold on its Christmas and Breakfast menus. This has resulted in over £49,000 being raised for Shelter so far.

Once again, we supported the Royal British Legion Poppy Appeal selling poppies to raise funds for thousands of serving and ex-Service people. Toby Carvery has also made the Royal British Legion its official charity partner and have raised over £38,000 via donating 25p from every Jam and Coconut Sponge pudding sold.

Support for Birmingham Children's Hospital

Over the past three years the Retail Support Centre Social Committee has organised a series of fundraising events for Birmingham Children's Hospital. Money has been raised through a sky dive, a mud run, abseils, leg waxing, and cake sales. Over the course of our three year partnership Mitchells & Butlers has raised over £34,000.

Licensed Trade Charity

Mitchells & Butlers is a supporter of the Licensed Trade Charity – an organisation that supports hundreds of pub, bar and brewery people facing crisis with practical, emotional and financial support. The Company supports a number of the charity's initiatives including employees taking on telephone befriending roles, a service set up to ease the isolation felt by some former hospitality industry staff. This year we have also started working with the charity as our provider of our Employee Assistance Programme called 'Time To Open Up' which is a confidential 24/7 helpline and provides support with a range of practical advice and services.

Our environment

We successfully manage our energy, waste and water in a way which is cost effective to the business and reduces our impact on the environment.

Waste management

We continue to drive successfully our waste disposal strategy, focused on reducing, re-using and effectively recycling the waste generated by our restaurants and pubs. This captures recycling cardboard, glass, food and cooking oil.

Plastic straws

We have removed plastic straws from service in our restaurants and pubs and only provide a straw if a guest requests one. As a direct result we have seen our straw usage drop by approximately 50% during FY 2018. We have also sourced a non-plastic straw made from paper and bamboo pulp that is being phased in across the estate and will eventually replace all plastic straws.

Energy efficiency

Our whole estate is fitted with energy efficient lighting. This has helped us to make considerable savings on energy consumption as well as improving lighting levels for our guests.

Smart meters are installed in almost all our businesses, along with heat recovery units which have been fitted in a number of our cellars. This has not only allowed the recovery of heat, but also reduced maintenance costs by allowing other equipment in the cellars to operate in cooler conditions. We also use free cellar air cooling systems, which draw in cool air from outside when temperatures drop below 8°C and turn off the traditional cellar cooling process, saving a huge amount of energy every day.

This year we have focused on enhancing the reporting of our consumption of gas and electricity allowing us to better monitor and reduce energy consumption. Each site receives a weekly report outlining half hourly energy consumption from the previous week, enabling our managers to make informed decisions on how to best manage their energy usage.

In addition, we are currently rolling out new gas and electricity meters across the estate to ensure that we have accurate consumption data, again to help inform our decisions on reducing our energy consumption.

Many of our kitchens use technology to control our extraction and air supply fans to ensure that they always run at the lowest speed to minimise energy usage. We have added smart heating controls to compatible sites that allow for better time and temperature control of our businesses, demonstrating how the reduction of our consumption of energy is now a fundamental part of our everyday business.

Energy consumption

A programme of work has commenced to drive a greater focus on reducing the consumption of electricity and gas across the estate. Reporting of consumption at outlet level has been enhanced and time slot analysis is driving a focus on 'out of trading hours' wastage.

Alongside this, a specialist third-party expert has been engaged to scope out a co-ordinated programme of activity looking across the key influencers of energy consumption, i.e. the pub (fabric and plant); controls and maintenance; site personnel and practices, and management and incentive schemes. It is anticipated this programme will cover a three to five year period.

Tax strategy

The aim of the Company tax strategy is to manage the tax affairs of the Group as efficiently as possible to support the commercial objectives of the Group. We manage our tax affairs in accordance with the letter and spirit of the law, whilst seeking to minimise the tax paid by the Group. We seek to maintain strong compliance controls and operate a policy of open and transparent dialogue with the relevant tax authorities. The full strategy can be found at www.mbplc.com/investors/businessconduct/taxstrategy

Modern slavery

Mitchells & Butlers has a zero-tolerance approach to any form of mistreatment of people and is committed to operating and conducting its business in such a way that human rights are respected and protected. The full statement can be found at www.mbplc.com/investors/businessconduct/modernslaverystatement

Keeping risk under control

This section highlights the top ten principal risks and uncertainties that affect the Company, together with the key mitigating activities in place to manage those risks.

This does not represent a comprehensive list of all of the risks that the Company faces, but focuses on those that are currently considered to be most relevant.

Overview

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

There is a formally established Risk Committee in place which continues to meet on a quarterly basis to review the key risks facing the business. Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact and recorded on the Group's 'Key Risk Heat Map', in conjunction with associated agreed risk mitigation plans. The processes that are used to identify and manage risks are described in the Internal Control and Risk Management statement on pages 62 and 63.

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

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

Our three lines of defence

1st

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

2nd

- Financial authority limits
- Risk Management processes
- Audit Committee
- Risk Committee
- Health and Safety Team
- Technology specialists
- Legal support

3rd

- Group Assurance
- Operational Practices Team

1. Market risks

Risk category and description	Controls/mitigating activities	Movement
A. Declining sales performance <i>This risk falls into three main categories:</i> Sales: There is a risk that declining sales, concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combinations, may adversely affect our market share and profitability, reducing headroom against securitisation tests. Consumer and market insight: If Mitchells & Butlers fails to manage and develop its existing (and new) brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in revenues and profits. Pricing and market changes: If price changes are not intelligently applied due to a lack of appreciation of market sensitivities and elasticities, this may result in decreased revenue and profit particularly in relation to exceptional dry/hot summer weather and extreme cold/snow conditions.	• Right team and structure in place. Brand alignment ensures the right research gets done and is acted on. • Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place. • Our Eat Drink Share panel provides robust, quick and cost-effective research. This is our own panel of 27,000 Mitchells & Butlers guests whom we can use for research purposes for quick and cost-effective insights. • Primary research in partnership with brand/category teams. • Working with suppliers to tap into their research. • Each brand has its own pricing strategy. • Price promotions are in line with the agreed strategy. • Sales training for Management. • Consumer/insight-led innovation process and development for new brands. • Reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses). • Increased digital marketing activity including new loyalty apps. • Increased activity from takeaway and delivery offerings. • Online guest satisfaction survey to collect guest feedback. This feedback, together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to guests of the Company's brands is maintained.	Risk decreasing 

1. Market risks continued

Risk category and description	Controls/mitigating activities	Movement
B. Cost of goods – price increases Food: The price of goods increases due to changes in demand, legislation, exchange rates and/or production costs and uncertainty of supply, leading to decreased profits. Drinks: The price of drinks goods increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits. Goods not for resale: Increases in the price of goods not for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting margins. Brexit: Given that in FY 2019, the transition period for the UK to exit from the EU will commence (noting that c.30% of food spend is sourced from EU countries), the overall risk and impact of additional costs is higher. In addition, there is an increasing risk of sourcing certain products given the expected delays at ports following exit from the EU. On exit of the EU, cost of goods would be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling.	Overall, price increases are mitigated as Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry in the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. Consideration has been given to potential areas such as supply chain risk (e.g. customs controls on imports), labour risk and economic disruption. Key mitigating activities for food and drink are detailed below: Food: • A Food Procurement Strategy is in place. • Full reviews have been carried out on key categories to ensure optimum value is achieved in each category. • A full range review was completed in 2017 ensuring the correct number of products/suppliers. This is regularly reviewed. • Regular reporting of current and projected inflation. • Good relationships with key suppliers. Drinks: • Each drinks category has a clearly defined strategic sourcing plan to ensure Company scale is leveraged, supply base is rationalised and consumer needs are met. • Good relationships with key suppliers. • Supplier collaboration programmes are in place. • Plans in place to mitigate Sugar Tax. Risk is increasing mainly due to the devaluation of the pound following the EU referendum, changes in Government policy (raising the risk of punitive duty changes) and the introduction of the Sugar Tax in 2018. Brexit risks have been considered in detail during FY 2018 and mitigating plans continue to be developed. Buying ahead to mitigate the increasing risk of a lack of availability of products upon exit from the EU.	Risk increasing 

2. Operational risks

Risk category and description	Controls/mitigating activities	Movement
A. People planning and development Mitchells & Butlers has a strong guest focus and so it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. There is a risk that, without the right people, our customer service levels would be affected. There are a large number of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk is increasing as the UK approaches its exit from the EU. Any restriction on the free movement of labour would have a material impact on both the cost of labour and access to talent.	• The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. • Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys. • Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. • The apprenticeship programme will also assist in mitigating against the increasing risk in relation to EU workers.	Risk increasing  (specifically in London/South East)

2. Operational risks continued

Risk category and description	Controls/mitigating activities	Movement
B. Business continuity and crisis management <i>Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.</i>	- The Company has in place crisis and continuity plans that are tested and refreshed regularly. The Company's third-party back-up facility, for Retail Support Centre employees, has been successfully tested to ensure critical business systems are able to function in the event of a disaster. - In addition, during FY 2018, departmental Business Continuity Plans have been revised, updated and reviewed by the Risk Committee. - During FY 2018, two key departments took part in a test of our third-party off-site back-up facility. This test was a success and identified some key learnings to improve the overall service, all of which were implemented.	No movement 
C. Information security and disaster recovery There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data. Increasing risk of cyber-attacks. Risk of non-compliance with GDPR.	- In FY 2018 a further review of cyber security was performed in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made to address audit actions. - In addition, controls include: - The work carried out by the Group's cross-functional Information Security Steering Group. - Group Assurance IT controls reviews. - Implementation and revision of appropriate cyber security governance policies and procedures. - Ongoing security awareness initiatives continue to be undertaken. - A regular cycle of penetration testing. - An effective implementation of a business wide Global Data Protection Regulation compliance programme, including training of all relevant employees and contractors. - Increased focus on protecting the business against potential cyber-attacks has resulted in the implementation of additional controls to mitigate against such risks. - Systems, processes and controls have been reviewed and updated to ensure GDPR compliance.	Risk increasing 
D. Wage cost inflation There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs.	- A detailed review of the risks associated with the National Living Wage has been completed. This review has been undertaken at a strategic level and seeks to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate. - We have successfully implemented a new Time and Attendance system to improve the management controls and reporting of staff hours.	Risk increasing 
E. Borrowing covenants There are risks that borrowing covenants are breached because of circumstances such as: - A change in the economic climate leading to reduced cash inflows; or - A material change in the valuation of the property portfolio. The overall risk has increased in the year due to increased trading and cost pressures which could essentially drive reduced headroom.	- The Company maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the role 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. - Annual property valuation. - Detailed assessment within the long-term viability statement	Risk increasing 
F. Pension fund deficit The material value of the pension fund deficit remains a risk.	- The Company has made significant additional contributions to reduce the funding deficit. In July 2017, the Company reached agreement on the triennial valuation of the Group pension schemes as at 31 March 2016, with a funding shortfall of £451m (March 2013 valuation £572m shortfall). - The Company will continue to pay cash contributions (of £48m p.a. indexed) to 2023, with an additional payment of £13m into escrow in 2024 should such further funding be required at that time.	No movement 

2. Operational risks continued

Risk category and description	Controls/mitigating activities	Movement
G. Failure to operate safely and legally A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation.	- Mitchells & Butlers maintains a robust programme of health and safety checks both within its restaurants, pubs and bars and throughout the supply chain. - The dedicated Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergen specialists to ensure that our food procedures are safe. - Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. - If a business is identified as underperforming in terms of health and safety standards, it would be immediately targeted for improvement. - The Company has Primary Authority Partnerships with Westminster City Council for the provision of assured advice on, amongst other things, safety issues and with Hampshire Fire Service for the provision of support and guidance on fire safety risks. - Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. - Comprehensive health and safety training programmes are in place.	No movement 
H. Food supply chain safety Malicious or accidental contamination in the supply chain could lead to food goods for resale being unfit for human consumption or being dangerous to consume. This could lead to restrictions in supply which in turn causes an increase in cost of goods and reduced sales due to consumer fears and physical harm to customers/employees. Allergens are becoming an increased risk within the industry.	- Mitchells & Butlers has a Safety Assurance team and uses a number of technical partners including food technologists, food safety experts, microbiologists, allergy consultants, trading standards specialists and nutritionists. - Mitchells & Butlers uses a robust system of detailed product specifications. - All food products are risk rated using standard industry definitions and assessment of the way the products are used in Mitchells & Butlers' kitchens. Suppliers are then risk rated according to their products. - Each food supplier is audited at least once per annum in respect of safety and additionally in response to any serious food safety complaint or incident. - A robust response has been taken to manage allergens and the associated data within the menu cycle coupled with a continuous review in place to ensure controls remain appropriate.	Risk increasing 

Long-term viability statement

Assessment of prospects

The Group's strategy provides long-term direction and considers the viability of the business model given prevailing market and economic conditions. The Directors' subsequent assessment of longer-term prospects has been made taking account of the current financial position, compliance with covenants, strategy, the budget planning process and the key risks and uncertainties, as detailed within the Annual Report.

Assessment period

Three years is deemed an appropriate period of assessment as it aligns with the Group's planning horizon in a fast-moving market subject to economic and political uncertainties and is supported by three year forecasts as approved by the Board in September 2018. This period also aligns with the triennial process of pensions valuations, a key consideration in respect of future cash flows.

Assessment of viability

In accordance with Provision C2.2 of the 2016 UK Corporate Governance Code, the Directors have undertaken an assessment, including sensitivity analyses, of the prospects of the Group for a period of three years to September 2021.

The current funding arrangements of the Group consist of £1.8bn of long-term securitised debt and £150m of unsecured committed bank facilities. The securitised debt amortises on a scheduled profile over the next 18 years and, whilst the unsecured facilities expire in December 2020, refinancing is believed to remain within the debt capacity of the business. Secured debt covenants are tested quarterly both on an annual and a half year basis. Unsecured facility covenants are tested twice yearly on an annual basis. No significant changes to the capital structure are assumed.

The three year plan takes account of the prevailing economic outlook, capital allocation decisions and of significant cost headwinds that are expected to recur each year alongside planned mitigating activity to manage such costs, principally driven through the Ignite programme of initiatives. The resilience of this plan is assessed through application of a significant but plausible downside sensitivity analysis focused in particular on the impact of the following Principal Risks described in the Annual Report: Declining Sales Performance, Cost of Goods Price Increases and Wage Cost Inflation (including combinations of these factors). Compliance with financial covenants on both secured debt and unsecured facilities is assessed for both the Plan and downside sensitivities.

Viability statement

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

Our financial and operating performance

On a statutory basis, profit before tax for the year was £130m (FY 2017 £77m), on sales of £2,152m (FY 2017 £2,180m).

Tim Jones Finance Director

The Group Income Statement discloses adjusted profit and earnings per share information that exclude separately disclosed items to allow a better understanding of the trading of the Group. Separately disclosed items are those which are separately identified by virtue of their size or incidence.

FY 2017 was a 53 week period. In order to facilitate comparison of trading performance a restated 52 week summary of adjusted performance is detailed below. All year-on-year growth rates in the financial review are provided on a consistent 52 week basis.

	Statutory		Adjusted ¹	
	FY 2018 £m	FY 2017 53 weeks £m	FY 2018 £m	FY 2017 52 weeks £m ¹
Revenue	2,152	2,180	2,152	2,141
Operating profit	255	208	303	308
Profit before tax	130	77	178	180
Earnings per share	24.5p	15.1p	34.1p	34.4p
Operating profit margin	11.8%	9.5%	14.1%	14.4%

At the end of the period, the total estate comprised 1,750 sites in the UK and Germany of which 1,687 are directly managed.

Changes in accounting policies

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

Revenue

The Group's total revenues of £2.152m were 0.5% higher than last year, with growth in like-for-like sales^a and the benefit of new site openings partially offset by disposals made in the prior year.

Total like-for-like sales^a grew by 1.3% with food sales^a up by 0.3% and drink sales^a by 2.6% reflecting in part the extended warm weather in the second half. Average spend per item on food was up 5.9%, and average drink spend up 4.9%, following some strengthening of prices and the increasing premiumisation of the estate.

Like-for-like sales ^a growth:	Weeks 1–32 [*] FY 2018	Weeks 33–52 FY 2018	Weeks 1–52 FY 2018
Food	1.0%	(0.6)%	0.3%
Drink	1.9%	3.5%	2.6%
Total	1.4%	1.2%	1.3%

* Weeks 1–32 presented to adjust for movement of Easter into first half

Separately disclosed items

Separately disclosed items are identified due to their nature or materiality to help the reader form a better view of overall and adjusted trading.

A £28m charge was recognised relating to the downward valuation movements on selected sites in the property portfolio resulting from the revaluation (FY 2017 £51m).

A £15m charge for impairment of short leaseholds and unlicensed properties (FY 2017 £17m) was recognised as a result of our annual review of asset carrying values.

A £6m charge was recognised relating to the legal costs associated with ongoing legal proceedings between Mitchells & Butlers Pensions Limited and the Company regarding the rate of inflation which should be applied to pension increases for certain sections of the membership of the Mitchells & Butlers Pensions Plan.

Operating margins and profit^a

The business continues to face inflationary cost pressures which have driven a year-on-year adjusted operating margin^a reduction. Increases for the year have in particular impacted labour, energy, property costs, and food and drink costs. Adjusted operating margins^a for the full year were 0.3ppts lower than last year at 14.1%.

Adjusted operating profit^a of £303m was 1.6% lower than last year as a result of the inflationary cost pressures outlined above, partially offset by like-for-like sales^a growth and mitigating cost reductions.

Interest

Net finance costs of £125m for the full year were £3m lower than last year on a 52 week basis^a, reflecting the reduction in Group securitised borrowings.

The full year pensions finance charge for next year is expected to be £7m

Earnings per share

Basic earnings per share, after the separately disclosed items described above, were 24.5p (FY 2017 15.1p). The increase over last year reflects a reduction in the aggregate charge relating to separately disclosed items. Adjusted earnings per share^a were 34.1p, 0.9% lower than last year. The weighted average number of shares in the period of 425m has increased due to the issue of shares as scrip dividends. The total number of shares issued at the balance sheet date is 428m.

Cash flow and net debt

The cash flow statement below excludes the net movement on unsecured revolving facilities of £(6)m (FY 2017 £(25)m).

	FY 2018 £m	FY 2017 £m
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	427	433
Cost charged in respect of share-based payments	(3)	(2)
Administrative pension costs	(2)	(2)
EBITDA before separately disclosed items ^a	422	429
Working capital movement	7	(10)
Pension deficit contributions	(48)	(46)
Cash flow from operations before adjusted items	381	373
Cash flow from adjusted items	(2)	–
Capital expenditure	(171)	(169)
Interest	(119)	(121)
Tax	(20)	(26)
Disposals and other	6	46
Investment in associates	(5)	–
Cash flow before adjusted items	70	103
Mandatory bond amortisation	(82)	(77)
Net cash flow before dividends	(12)	26
Dividend	(7)	(12)
Net free cash flow^a	(19)	14

The business generated £422m of EBITDA before separately disclosed items. Capital expenditure of £171m was marginally higher than the prior year due to increased technology spend of £10m partially offset by a lower capital cost per project driven by a decreased proportion of conversion projects. Disposal income related to the sale of five sites in the year. Investment in associates of £5m related to two investments made during the year.

After capital expenditure, disposals income, investment in associates, interest and tax, £70m of cash flow was generated by the business. The cash dividend payment of £7m is lower than last year as no interim dividend was declared.

Net debt of £1.688m at the year end (FY 2017 £1,750m), represented 4.0 times adjusted EBITDA^a on a 52 week basis (FY 2017 4.2 times).

Capital cash expenditure

Capital expenditure of £171m comprises £167m from purchase of property, plant and equipment and £4m in relation to purchase of intangible assets.

Maintenance and infrastructure capex of £70m was £17m higher than the prior year due primarily to investment in systems and technology of £10m.

Return generating capital of £101m decreased due to the reduced proportion of conversion projects and increased number of remodels which require lower spend per project. During the year we completed 232 remodels and conversions (FY 2017 252 sites) and opened seven new sites (FY 2017 13 sites). Acquisitions were primarily focused on premiumisation with the opening of four new Miller & Carter sites, two new All Bar Ones and one Toby Carvery.

The return on expansionary capital^a across all conversion and acquisition projects over the past four years was 16% (FY 2017 18%), with increasing returns coming through from more recent projects. Across projects completed in the year the return was 23%. Recent remodel performance, for projects completed in FY 2018, has also been encouraging, delivering returns of 27%^a and sales uplifts in excess of 10%.

	FY 2018		FY 2017	
	£m	No.	£m	No.
Maintenance and infrastructure	70		53	
Remodels – refurbishment	63	188	42	143
Remodels – expansionary	7	13	14	31
Conversions	21	31	39	78
Acquisitions – freehold	7	2	3	1
Acquisitions – leasehold	3	5	18	12
Total return generating capital expenditure	101	239	116	265
Total capital expenditure	171		169	

The Group capital expenditure is expected to be slightly higher next year, in the range of £175m to £180m.

Property

In line with our property valuation policy, a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall property portfolio valuation has decreased by £48m (FY 2017 increase of £2m) reflecting a £43m separately disclosed charge in the income statement and a £5m decrease in the revaluation reserve.

Pensions

The Company continues to make pensions deficit payments as part of the triennial pensions valuation as agreed with the schemes' Trustee at 31 March 2016, which showed an asset funding shortfall at that time of £451m. The deficit will be funded by cash contributions of £48m per annum indexed to 2023, as per the agreement reached in 2013.

In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

The Mitchells & Butlers Pension Plan Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of the guaranteed minimum pensions and the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules in 1996 and, despite it being reflected in further versions, has made an application to court for these various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in late 2019. The actuarial surplus as determined under IAS 19 (revised) has continued to be calculated using RPI, pending final resolution of the matter. Leaving all other principal financial assumptions constant, the impact of this change on the defined benefit obligation as measured under IAS 19 (revised) is estimated to be £150m. However (under IFRIC 14) an additional liability is recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023. As such should the Company be successful in contesting the application there will be no necessary movement in the total balance sheet position. Legal fees associated with these proceedings of £6m have been recognised as separately disclosed items.

Capital allocation policy and dividends

The Company has capital allocation obligations notably in respect of debt service and pension fund contributions after which investment in the estate and distribution to shareholders can be considered. Subsequent capital allocation decisions are made primarily to protect the ongoing and future health of the business and, as previously stated, when assessing dividends the Board would not expect to see a structural, or permanent, increase in the use of short-term facilities.

Given this capital allocation framework combined with the uncertain outlook, the Board does not propose a final dividend for the year.

The Board keeps its dividend policy under review as appropriate in the context of its capital allocation policies, capital structure, and inherent visibility on trading.

The Strategic report on pages 1 to 45 was approved by the Board on 21 November 2018 and signed on its behalf by Tim Jones, Finance Director.

Tim Jones Finance Director

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

Governance

In this section

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Dear fellow shareholder
It gives me great pleasure to
update you on our progress
in corporate governance over
the past year.

One of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for more than 44,000 employees and maintain the highest possible standards of corporate governance. In doing so, due regard is paid to the Financial Reporting Council's report of July 2016 'Corporate Culture and the Role of Boards', in particular the need to align values and incentives, and the assessment and measurement of company culture. The Board also regularly considers the need for diversity as set out in the Davies Report of 2011 and the follow up Hampton-Alexander Review published in November 2016.

The Board continues to monitor developments in corporate governance and reporting regulations. The Strategic Report on pages 1 to 45 includes the Group's strategy, progress and performance for the year.

During the year the Board as a whole has continued to work together to implement the Company's strategy in a cohesive way. Our broad range of Board talent covers a variety of professional skills and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. In September 2018, we announced that Stewart Gilliland, who joined the Board as a Non-Executive Director in May 2013 and was appointed as Senior Independent Director in February 2015, had informed the Board of his intention to step down from the Board in order to concentrate on his other roles outside the Group. The Board has already commenced a process of identification and recruitment of a replacement for Stewart following which it will confirm the date for him to step down and make an appropriate announcement. This is likely to be by the end of December 2018. My focus continues to be on maintaining a strong team, with a broad range of professional backgrounds and skills to drive further improvements where possible.

In line with the best practice recommendations of the UK Corporate Governance Code, last year we committed to carrying out an externally facilitated review of the Board's effectiveness. The results of the 2018 externally facilitated review can be found on page 63.

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

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team via our Investor Roadshow programme. I would like to encourage shareholders to attend our Annual General Meeting, details of which are set out in the separate Notice of AGM sent out with this Annual Report. The use of our Retail Support Centre in Birmingham as a venue for our AGM has proved to be a success (as well as a cost saving) and so we intend to use the same facility for the 2019 AGM and we look forward to welcoming you, where I hope you will take the opportunity of meeting our Executive and Non-Executive Board Directors.

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

Bob Ivell Chairman

 **For the Company's latest financial information**
go to www.mbplic.com/investors

Bob Ivell
Non-Executive Chairman^{RNM}

Aged 66

Appointed to the Board in May 2011, Bob has over 30 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently Non-Executive Chairman of Carpetright plc, a Non-Executive Director of Charles Wells Limited and President of The Association of Licensed Multiple Retailers. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic plc, and a main Board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Park Resorts and David Lloyd Leisure Limited, and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee and of the Market Disclosure Committee.

Phil Urban
Chief Executive^{ME}

Aged 55

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

Tim Jones
Finance Director^{ME}

Aged 55

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

Ron Robson
Deputy Chairman^{AN}

Aged 55

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

Colin Rutherford
Independent Non-Executive Director^{ARNM}

Aged 59

Appointed as an independent Non-Executive Director in April 2013, Colin is currently Chairman of Brookgate Limited and Teachers Media plc. He is also a Non-Executive Director of Evofem Biosciences Inc and Renaissance Services SAOG amongst his other activities. He was formerly Executive Chairman of MAM Funds plc and Euro Sales Finance plc and has served as a Director of various other public and private companies in the UK and overseas. Colin is a member of the Institute of Chartered Accountants of Scotland and has directly relevant corporate finance experience in both the leisure and hospitality industries. Colin is Chairman of the Audit Committee, and serves on all other independent governance committees.

Imelda Walsh
Independent Non-Executive Director^{ARN}

Aged 54

Appointed as an independent Non-Executive Director in April 2013, Imelda is a Non-Executive Director, and Chair of the Remuneration Committees of FirstGroup plc and Aston Martin Lagonda Global Holdings plc. She was a Non-Executive Director, and subsequently Chair of the Remuneration Committee, of William Hill plc from 2011 to 2018, Mothercare plc from 2013 to 2016, and Sainsbury's Bank plc from 2006 to 2010. She has held senior Executive roles at J Sainsbury plc, where she was Group HR Director from March 2004 to July 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. Imelda is Chair of the Remuneration Committee.

Stewart Gilliland
Senior Independent Director^{ARN}

Aged 61

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

Eddie Irwin
Non-Executive Director^{ARN}

Aged 59

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

Josh Levy
Non-Executive Director^R

Aged 28

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

Keith Browne
Non-Executive Director

Aged 49

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

Dave Coplin
Independent Non-Executive Director^{ARN}

Aged 48

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

Key to Committee membership

- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- M** Market Disclosure Committee
- E** Executive Committee

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

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

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

The Directors present their report on the affairs of the Group and the audited financial statements for the 52 weeks ended 29 September 2018. The Business review of the Company and its subsidiaries is given on pages 14 to 17 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 38 to 42 and 62 and 63, and details about financial instruments are shown in note 4.4 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on pages 30 and 31.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 1 to 45 reflects the Directors' understanding of the requirement to provide a Strategic report.

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

Areas of operation

Throughout FY 2018 the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany.

Share capital

The Company's issued ordinary share capital as at 29 September 2018 comprised a single class of ordinary shares of which 428,310,823 shares were in issue and listed on the London Stock Exchange (30 September 2017 422,548,604 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association. Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 1,885,130 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 139. Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting specifies deadlines for exercising voting rights in relation to the resolutions to be put to the Annual General Meeting.

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

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

During the year, shares with a nominal value of £34,816 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006, and shares with a nominal value of £457,374 were allotted pursuant to the Scrip Dividend Scheme. 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 86 in the Report on Directors' remuneration.

Dividends

No final dividend will be paid in respect of the year ended 29 September 2018 (FY 2017 final dividend of 5p). No interim dividend was paid during the year (FY 2017 interim dividend of 2.5p).

Interests in voting rights

As at 29 September 2018, 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.	116,234,517	27.14	Direct holding
Elpida Group Limited	100,840,659	23.54	Direct holding
Standard Life Aberdeen plc	47,103,182	10.99	Indirect holding
Smoothfield Holding Limited	19,021,589	4.44	Direct holding

* Based on the total voting rights figure as at 29 September 2018 of 428,310,823 shares

The following changes took place between 30 September 2018 and 21 November 2018:

Standard Life Aberdeen plc notified the Company on 5 October 2018 that its holding had decreased to 44,739,657 shares (10.45%), and again on 7 November 2018 that its holding had decreased to 42,780,803 shares (9.99%).

Directors

Details of the Directors as at 21 November 2018 and their biographies are shown on pages 48 and 49. The Directors at 29 September 2018 and their interests in shares are shown on page 86. There were no changes to the Board of Directors during the year nor subsequent to the year end, up to the date of this report. In September 2018, the Company announced that Stewart Gilliland had informed the Board of his intention to step down from the Board and this is likely to take place by the end of December 2018.

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

In accordance with the Company's Articles of Association (which are in line with best practice guidance of the UK Corporate Governance Code) all the Directors, with the exception of Stewart Gilliland, will retire at the AGM and will offer themselves for re-election.

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

The Company's two largest shareholders, Piedmont Inc. and Elpida Group Limited, have nominated representatives on the Board. Piedmont's appointment rights are formalised in the Deed of Appointment referred to in this report but there is no equivalent agreement in place between the Company and Elpida. The Elpida representatives were appointed with the approval of the Board in March 2012 and September 2016. The Board has carefully considered whether it would be appropriate to enter into a formal agreement with Elpida that is similar to the existing agreement between the Company and Piedmont. Having taken into account the Financial Reporting Council's report of August 2014 'Towards Clear & Concise Reporting' and the views expressed previously by certain of the investor representative bodies, the Board considers that such an agreement would be merely one of form rather than substance and not in the interests of shareholders generally. As a result, the Board does not propose currently that the Company should enter into such an agreement with Elpida, and Elpida has not, to date, sought such an agreement. The Board considers that the Company is acting in accordance with good governance principles in working with our significant long-term shareholders towards our common goals and the achievement of the Company's strategy, with continued stability at Board level.

Directors' indemnity

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

Articles of Association

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

Conflicts of interest

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

Related party transactions

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

Change of control provisions

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

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

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

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

Provisions which apply in the event of a takeover or reconstruction

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

Employment policies

The Group employed an average of 44,802 people in FY 2018 (FY 2017 45,891). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

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

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

The Group is responsive to the needs of its employees. As such, should any employee of the Group become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their environment where possible, in order to keep the employee with the Group. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee engagement

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

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

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

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

Engagement with Mable (the Mitchells & Butlers learning environment) has grown significantly since launch in July 2017 driven by our ability to create and deliver quality online training in-house. In the last year we have added online training for each brand food menu change and drinks training for seasonal products is now delivered via Mable's social pages.

Development programmes for all retail team now incorporate live online classrooms delivered via interactive webinar with over 46,000 learners attending one of the 2,400 workshops led by our retail training team.

The STAR skills training programme is a comprehensive learning resource on Mable for all new retail team. 85% of users return frequently to the site.

Mitchells & Butlers operates the Challenge 21 policy in all our businesses across England and Wales (and a Challenge 25 policy in our Scottish businesses). The policy requires that any guest attempting to buy alcohol who appears under the age of 21 (or 25 in Scotland), must provide an acceptable form of proof of age ID to confirm that they are over 18, before they can be served. This policy forms part of our regular training for our employees on their responsibilities for serving alcohol.

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the 2013 Sharesave Plan and the Share Incentive Plan (which includes Partnership shares). The Company also operates two other plans on a selective basis, which are the 2013 Performance Restricted Share Plan and the 2013 Short Term Deferred Incentive Plan. Further details on the plans are set out in the Report on Directors' remuneration.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. No shares in the Company were purchased by the employee benefit trust during FY 2018.

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 2019 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £150m of unsecured committed bank facilities. Further information regarding these arrangements is included in note 4.2 to the financial statements on page 126. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed and used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements is 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 92 to 147 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's financing is based on securitised debt and unsecured bank facilities and, within this context, a robust review has been undertaken of projected performance against all financial covenants. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See section 1 of the financial statements on page 105 for the Company's going concern statement, and page 42 for the Company's long-term viability statement.

Annual General Meeting

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

Auditor

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

Events after the balance sheet date

As set out in note 5.3 to the Group financial statements on page 142, on 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. That court case did not involve the Company or its pension schemes but, unless reversed on appeal (as to which it is not clear as at the date of this report whether there will be an appeal) it will apply to the Company and its Group and GMPs enjoyed by members of the Group's pension schemes. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling confirmed the method of equalising GMPs that is to be applied. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate. More details of how this ruling may impact the Company are set out in note 5.3 to the financial statements.

There are no other post-balance sheet events to report.

Disclosure of information to auditor

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

Greenhouse gas ('GHG') emissions statement

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

GHG emissions per £m turnover were reduced by 10.8% during the 2017/18 tax year in comparison to 2016/17 in response to a continued focus on engaging staff on energy efficiency and through investment across our business.

Assessment parameters

Assessment year	2017/18 tax year.
Consolidation approach	Financial control.
Boundary summary	All bars and restaurants either owned or under operational control during the 2017/18 tax year were included.
Scope	General classifications of greenhouse gas emissions scopes based on the GHG protocol and ISO 14064-1:2006 within the context of the Group's operations are as follows: Scope 1 – direct greenhouse gas emissions from sources that are owned or controlled by the Group, e.g. fuel combustion of varying types, occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience. Scope 2 – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling. Scope 3 – indirect emissions as a consequence of the activities of the Group, but occurring from sources not owned or controlled by the Group. This assessment focuses on Scope 1 and 2 emissions only (Scope 3 is optional under the current regulations).
Consistency with the financial statements	Scope 1 and 2 emissions are reported for the 2017/18 and 2016/17 tax years to retain consistency with reporting of our carbon emissions under the Carbon Reduction Commitment ('CRC') Energy Efficiency Scheme. Scope 1 and 2 emissions from sites with 'landlord supplies' are not included in the CRC submission. Franchise sites are excluded as they are responsible for arranging and paying for their own energy. Alex sites in Germany are included. Emissions are based on UK average emissions multiplied by the number of Alex sites.
Exclusions	Scope 1 – Vehicle fleet emissions are excluded as they have been calculated to account for <1% total emissions which falls below the materiality threshold. Scope 1 – Fugitive emissions within refrigeration and cooling equipment are not included as detailed records are not yet held. Outside of scope – Logs are 'outside of scope' because the Scope 1 impact of these fuels has been determined to be a net '0'. However, the CO₂e value of logs has been calculated to be <1% and would be excluded in any case as this falls below the materiality threshold.
Emission factor data source	All carbon emission factors used are consistent with details provided in the respective Carbon Reduction Commitment submissions.
Assessment methodology	Defra Environmental Guidelines 2013.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Intensity threshold	Emissions are stated in tonnes CO ₂ e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.
Target	Emissions during the 2016/17 tax year are provided for comparative purposes. It should be noted that the 2016/17 emissions have been re-calculated with electricity transmission and distribution losses removed as these are now classed as Scope 3 emissions.

Greenhouse gas emissions source	2016/17		2017/18		Change from previous year		
	(tCO ₂ e)	(tCO ₂ e/£m)	(tCO ₂ e)	(tCO ₂ e/£m)	(tCO ₂ e)	(tCO ₂ e/£m)	% movement in tCO ₂ e/£m
Scope 1	95,993	45.4	90,021	41.2	(5,972)	(4.2)	(9.3%)
Scope 2	163,960	77.6	149,721	68.5	(14,239)	(9.1)	(11.7%)
Statutory total (Scope 1 & 2)*	259,953	123.0	239,742	109.7	(20,211)	(13.3)	(10.8%)

* Statutory carbon reporting disclosures required by Companies Act 2006

Modern Slavery Act 2015

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

By order of the Board



Greg McMahon Company Secretary and General Counsel

21 November 2018

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 such 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 also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements 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 Financial Reporting Standard 101 Reduced Disclosure Framework has 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.

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 21 November 2018 and is signed on its behalf by:

Tim Jones Finance Director

21 November 2018

Bob Ivell Chairman

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

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

The Company is reporting against the 2016 edition of the Code. A revised Code was published in July 2018, which will become effective for accounting periods beginning on or after 1 January 2019. The key changes between the 2016 and 2018 Codes are:

- enhanced board engagement with the workforce and wider stakeholders;
- a clear business strategy aligned with a healthy corporate company culture;
- a high-quality and diverse board composition; and
- proportionate executive remuneration that supports the long-term success of the business.

The Board will examine current practices in relation to the requirements of the 2018 Code and will report in relation to them at the appropriate time.

📄 The latest financial information for Mitchells & Butlers and its group of companies is included in the 2018 Annual Report and Accounts (of which this corporate governance statement forms part) and which is available online at: www.mbpplc.com/investors

The Board is committed to high standards of corporate governance. I am delighted to be able to report that the Board considers that the Company has complied throughout the year ended 29 September 2018 with all the provisions and best practice guidance of the Code except those in respect of Board composition and the constitution of Board Committees. This corporate governance statement addresses the small number of areas where, for reasons specific to Mitchells & Butlers, there are divergences from the Code as described below.

The Audit Committee report and Nomination Committee report which are set out on pages 64 to 67 and page 60 respectively of the Annual Report also form part of this corporate governance statement and they should all be considered together.

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the Code. There are, however, a small number of areas where, for reasons specifically related to the Company, the detailed provisions of the Code were not fully complied with in FY 2018. These areas are kept under regular review. A fundamental aspect of the Code is that it contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, the Code specifically recognises the concept of 'Comply or Explain' in relation to divergences from the Code.

Compliance with the Code

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

Explanation for non-compliance with parts of the Code

During the year, there were three divergences from full compliance with the Code as set out below by reference to specific paragraphs in the Code:

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

During the year, Code Provision B.1.2, which requires that at least half of the Board be made up of independent Non-Executive Directors (excluding the Chairman), was not complied with. Accordingly, this had consequential implications on the composition of the Audit and Remuneration Committees. There were no changes in Board composition during FY 2018. In September 2018, the Company announced that Stewart Gilliland had informed the Board of his intention to step down from the Board and the Board has commenced a process of identification and recruitment of a replacement.

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

The possibility of appointing a further independent Non-Executive Director remains a matter for the Nomination Committee to review and is considered regularly. Throughout FY 2018, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the Code. The Audit and Remuneration Committees are not fully compliant with the relevant provisions of paragraphs C.3.1 and D.2.1 of the Code in that they include the presence of representatives of major shareholders. Nevertheless, the Board values the contribution of those shareholder representatives on those Committees, does not consider this to be an impediment to good governance and looks forward to continuing to work with them on matters affecting the Group and its activities in the future.

The information required by Disclosure Guidance and Transparency Rule ('DGTR') 7.1 is set out in the Audit Committee report on pages 64 to 67. The information required by DGTR 7.2 is set out in this corporate governance statement, other than that required under DGTR 7.2.6 which is set out in the Directors' report on pages 50 to 55.

Board composition

The Board started and ended the year with eleven Directors and the table opposite lists the composition of the Board during the year.

The Board

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

During FY 2018 there were ten scheduled Board meetings. There were also four meetings of the Audit Committee, six meetings of the Remuneration Committee and two meetings of the Nomination Committee. The table opposite shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Full attendance was recorded for all Directors in respect of all Board and Committee meetings during FY 2018, but where Directors are unable to attend a meeting (whether of the Board or one of its Committees), they are provided with all the papers and information relating to that meeting and are able to discuss issues arising directly with the Chairman of the Board or Chair of the relevant Committee. In addition, the Board members meet more informally approximately four times a year and the Chairman and the Non-Executive Directors meet without the Executive Directors twice a year.

There are ten Board meetings currently planned for FY 2019.

The Company Secretary's responsibilities include ensuring good information flows to the Board and between senior management and the Non-Executive Directors. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development. This includes regular corporate governance and business issues updates, as well as the use of operational site visits and the provision of external courses where required. The Company Secretary facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements and including guidance on the requirements of, and Directors' duties in connection with, the Code and the Companies Act 2006 as well as other relevant legislation. In FY 2018,

the Company Secretary also co-ordinated the externally facilitated performance evaluation of the Board, details of the output of which are set out at page 63. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Directors who served during the year				
Bob Ivell	10 (10)	n/a	6 (6)	2 (2)
Keith Browne	10 (10)	n/a	n/a	n/a
Dave Coplin	10 (10)	4 (4)	6 (6)	2 (2)
Stewart Gilliland	10 (10)	4 (4)	6 (6)	2 (2)
Eddie Irwin	10 (10)	4 (4)	6 (6)	2 (2)
Tim Jones	10 (10)	n/a	n/a	n/a
Josh Levy	10 (10)	n/a	6 (6)	n/a
Ron Robson	10 (10)	4 (4)	n/a	2 (2)
Colin Rutherford	10 (10)	4 (4)	6 (6)	2 (2)
Phil Urban	10 (10)	n/a	n/a	n/a
Imelda Walsh	10 (10)	4 (4)	6 (6)	2 (2)

Directors

The following were Directors of the Company during the year ended 29 September 2018:

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

¹ Independent while in the role specified

² Nominated shareholder representative of Elpida Group Limited

³ Nominated shareholder representative of Piedmont Inc

At the start and end of the year, the Board was made up of ten male and one female members. There were no changes to the Board during the year.

The Executive Directors have service contracts, details of which are on the Company's website www.mbpplc.com. The Chairman and each of the Non-Executive Directors have letters of appointment. Copies of the respective service contracts or letters of appointment of all the members of the Board are available on the Company's website. In addition, they are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

All the Company's Directors are required to stand for annual re-election at the Company's Annual General Meeting in accordance with the Company's Articles of Association. The exception to this is Stewart Gilliland who plans to step down from the Board by the end of December 2018 and consequently will not be standing for re-election at the AGM in January 2019. Their biographical details as at 21 November 2018 are set out on pages 48 and 49, including their main commitments outside the Company.

The Executive Directors may be permitted to accept one external Non-Executive Director appointment with the Board's prior approval and as long as this is not likely to lead to conflicts of interest. As at the date of this Annual Report, neither of the Executive Directors held any such external directorship.

Division of responsibilities between Chairman and Chief Executive

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

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

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 61) and attends the Nomination, Remuneration and Audit Committee by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of the Market Disclosure Committee, the Property Committee and the Pensions Committee.

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

Chairman

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

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

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

Chief Executive

Phil Urban was appointed Chief Executive on 27 September 2015. He has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Stewart Gilliland was appointed to the role of Senior Independent Director on 2 February 2015. He will be stepping down from the Board by the end of December 2018 and will not be submitted for re-election at the 2019 AGM. The Board has commenced a process of identification and recruitment of a replacement.

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

The Senior Independent Director also meets with Non-Executive Directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance and provides feedback to the Chairman on the outputs of that appraisal.

Non-Executive Directors

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

Ron Robson and Josh Levy were appointed to the Board as representatives of one of the Company's largest shareholders, Piedmont Inc., and were therefore not regarded as independent in accordance with the Code.

Eddie Irwin and Keith Browne were appointed to the Board as representatives of another of the Company's largest shareholders, Elpida Group Limited and were therefore not regarded as independent in accordance with the Code.

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

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 80, the Non-Executive Directors received no remuneration from the Company during the year. The base fee for Non-Executive Directors will increase by 2% to £53,000 per annum and the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will increase to £13,000 per annum, both changes to take effect from 1 January 2019.

When Non-Executive Directors are considered for appointment, the Board takes into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship. On average, the Non-Executive Directors spend two to three days per month on Company business, but this may be more depending on the circumstances from time to time.

Board information and training

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

The training needs of Directors are formally considered on an annual basis and are also monitored throughout the year with appropriate training being provided as required, including corporate social responsibility and corporate governance as well as the environmental impacts of the Company's activities.

Committees

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

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 64 to 67 which is incorporated by reference into this statement.

Remuneration Committee

Details of the Remuneration Committee and its activities during the year are included in the Report on Directors' remuneration on pages 68 to 91.

Nomination Committee

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning for the Board and the Executive Committee and reviewing the output of the Board effectiveness review. The Board has agreed to set out a detailed Board succession plan and that will be considered by the Nomination Committee in FY 2019.

During the year, the Nomination Committee considered the composition of the Board and, following the year end, has assessed the outcome of the externally facilitated Board effectiveness review which was carried out during the financial year now reported on. More details of the conclusions of that review are on page 63. The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board.

Diversity and Inclusion Steering Group and Board Diversity Policy

The Company has a Diversity and Inclusion Steering Group which examines the implementation of diversity within the Group.

The Board has approved a Board Diversity Policy. The key statement and objectives of that policy are as follows:

Statement:

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

Objectives:

- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship. All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report, the Hampton-Alexander Review and the UK Corporate Governance Code 2016. These will be reviewed on an annual basis.

Progress against the policy:

The Board continues to monitor progress against this policy. In terms of Board diversity, the proportion of women on the Board was 9% as at the year ended 29 September 2018. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of the Mitchells & Butlers Group, can be found in the corporate social responsibility section on pages 32 to 37.

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

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

	Appointment date	Member at 29/09/18
Bob Ivell (Chair)	11/07/13	Y
Dave Coplin	29/02/16	Y
Stewart Gilliland	11/07/13	Y
Eddie Irwin	11/07/13	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

During the year, the Company complied with provision B.2.1 of the Code as the Nomination Committee comprised a majority of independent Non-Executive Directors.

Market Disclosure Committee

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

As a result, a formal standing Committee of the Board was established, called the Market Disclosure Committee, which comprises the Chairman, the Chief Executive, the Finance Director and an independent Non-Executive Director, currently Colin Rutherford.

Executive Committee

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

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

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

General Purposes Committee

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

Property Committee

The Property Committee reviews property transactions which have been reviewed and recommended by the Portfolio Development Committee, without the need for submission of transactions to the full Board. The Property Committee agrees to the overall strategic direction for the management of the Group's property portfolio on a regular basis and may decide that a particular transaction should be referred to the Board for consideration or approval. The Property Committee comprises Bob Ivel (Committee Chair), Phil Urban, Tim Jones, Josh Levy, Keith Browne, Colin Rutherford, Stewart Gilliland and Gary John.

Portfolio Development Committee

The executive review of property transactions and capital allocation to significant property matters such as site remodel and conversion plans and the Company's real estate strategy is carried out by the Portfolio Development Committee. This is not a formal Board Committee but comprises the Chief Executive, the Finance Director, the Group Property Director and the Company Secretary and General Counsel. It has delegated authority to approve certain transactions up to agreed financial limits and, above those authority levels, it makes recommendations to the Board or the Property Committee.

Pensions Committee

The Board has established a Pensions Committee to supervise and manage the Company's relationship with its various pension schemes and their trustees.

The Pensions Committee members are Bob Ivel (Committee Chair), Colin Rutherford, Imelda Walsh, Tim Jones, Phil Urban, Keith Browne and Josh Levy.

Throughout FY 2018, the work of the Pensions Committee focused primarily on the discussions with the Trustee of the Mitchells & Butlers Pension Plan in relation to application of an inflation linked increase to pensions in October 2018 in the context of the Company's instruction to the Trustee to apply a CPI-related increase as set out in note 4.5 of the Group financial statements, and of the Trustee's application to court for rectification of the Trust Deed and Rules of that plan as referred to at note 4.5 of those financial statements.

Treasury Committee

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

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

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

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

Independent advice

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

Code of Ethics

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). The Ethics Code was reviewed and re-communicated to all employees in FY 2018 to ensure it was kept clearly in focus. Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers including compliance with the requirements of the Bribery Act 2010;
- the ethical handling of actual or apparent conflicts of interest between internal and external, personal and professional relationships; and
- *that any hospitality from suppliers must be approved in advance by appropriate senior management, with a presumption against its acceptance.*

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

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

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings. The Company's compliance statement in relation to the Modern Slavery Act can be viewed on the Company's website www.mbplc.com

Directors' training includes environmental, social and governance ('ESG') matters and the Company Secretary is responsible for ensuring that Directors are made aware of and receive regular training in respect of these important areas. The Chief Executive, Phil Urban, is ultimately responsible for ESG matters.

The Board is responsible for the Company's internal risk management system, in respect of which more details can be found in the 'Risks and uncertainties' section of this report, and in the following section of this statement.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Code for the year under review and to the date of approval of the Annual Report. Such procedures are in line with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and are regularly reviewed by the Audit Committee.

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

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

The Group's risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 38 to 42. More details of the work of the Risk Committee are included in the Audit Committee report on pages 64 to 67.

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

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

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

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

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

Shareholder relations

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

On a more informal basis, the Chairman, Chief Executive and the Finance Director regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders. The voting rights of Piedmont Inc. and Elpida Group Limited are set out in the Directors' report on page 51.

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

Board effectiveness evaluation and Chairman's evaluation and appraisal

During the year, the Board carried out a Board Effectiveness Review which was facilitated by Mrs Ffion Hague of Independent Board Evaluation. Mrs Hague carried out detailed interviews of the Board members and presented her conclusions to a meeting of the whole Board. The Board has considered those conclusions carefully and noted, in particular, that the feedback was that the Board was performing well with a good mix of skills and experience and that Board meetings allow for good debate and discussion. The principal Committees of the Board were also noted to be working well. As regards areas for further development, the Board has agreed that it will review its composition and develop a more formal succession plan for both the Board and the senior leadership group with continued focus on gender and ethnic diversity. That plan is presently being prepared for formal consideration by the Nomination Committee and the full Board. The Board has also agreed to improve the degree of formality around its Pensions Committee and Nomination Committee so that they are brought more in line with the Audit Committee and the Remuneration Committee. The Board has also noted and agreed to review and update its longer-term strategic plan, building on the outputs of the business improvement activities referred to in the Chief Executive's Report on page 14. The final recommendations relate to clarifying and simplifying some of the Board's regular reports and these are being implemented during the current financial year.

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

Going concern

The Directors' statement as to the status of the Company as a going concern can be found on page 53.

Colin Rutherford Chairman of the Audit Committee

Introduction from the
Audit Committee Chairman
I am delighted to present, on behalf
of the Board, the report of its Audit
Committee for the financial year ended
29 September 2018.

Over the past year we continued to have the benefit of spending valuable time with our Group Risk Director and those key individuals throughout the Group, who collectively provide an appreciation and rigorous insight into how our Group functions and reports. These interactions are extremely valuable and the Committee is grateful for the instruction they provide. These activities also significantly assist towards the promotion and efficient execution of the Committee's oversight role.

Engagement with auditors and third parties

The Committee continued to engage formally, regularly and at an appropriate level of detail with our external auditors, internal auditors (also externally resourced) and other third-party advisers as necessary. This has enabled the Committee to maintain an appropriate understanding of how our auditors and third-party advisers interact with our assurance and risk function. In turn this enabled these essential reporting authorities to provide comprehensive coverage over the whole audit process and has helped augment our Committee's confidence in their respective and collective fieldwork conclusions.

It is also important to note our Committee's role in overseeing the well-considered provision of adequate resources by the Group, towards ensuring that any additional non-audit services required over the year were obtained, where necessary, and in dealing with the increasing role of the Financial Reporting Council (FRC) and its evolving reporting requirements.

Effectiveness of internal controls and Group assurance and risk function

The above efforts provided the Committee with a clear and detailed understanding of the principal operations at all levels over the year. The Committee continued to focus on challenging the effectiveness of the Group's internal controls, the robustness of the Group Assurance and Risk Management processes and in assessing the importance of, and acting as required upon, all reported information received from our external and internal auditors and third-party advisers.

We remain committed to maintaining an open and constructive dialogue with our shareholders on audit matters. Therefore, if you have any comments or questions on any element of the report, please email myself, care of Adrian Brannan, Group Risk Director, at company.secretariat@mbplc.com

Membership and remit of the Audit Committee

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

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

At the date of the Annual Report, the Audit Committee comprises four independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Stewart Gilliland and Dave Coplin, and two further Non-Executive Directors nominated by substantial shareholders, Ron Robson and Eddie Irwin. In accordance with Code provision C.3.1 the Board considers that Colin Rutherford has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on pages 48 and 49.

Following the appointment of three Independent Non-Executive Directors in April and May 2013, Committee members were appointed with effect from 11 July 2013, and revised terms of reference were established, in order to comply with Code requirements. Those terms of reference are reviewed by the Committee annually.

The Audit Committee continued to meet quarterly during FY 2018. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm and the internal Group Assurance function.

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

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 80.

Summary terms of reference

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

The Audit Committee's terms of reference were approved by the Committee and adopted by the plc Board in 2013. Those terms of reference specifically provide that they will be reviewed annually. They have been reviewed and updated as appropriate each year since and no changes were felt to be needed in FY 2018. At the time of re-adoption of the Company's Corporate Governance Compliance Statement in July 2016, as updated to reflect changes required to give effect to the introduction of the Market Abuse Regulation (MAR), any changes to the Company's governance arrangements to reflect the requirements of MAR were introduced. Other than those MAR-related amendments, which related to consequential changes to regulatory references (e.g. the UKLA's Disclosure and Transparency Rules are now known as the Disclosure Guidance and Transparency Rules), there have been no material changes to these Terms of Reference since the last review in 2015. Accordingly, in FY 2018 no material changes were made to the terms of reference of the Audit Committee, and the work of the Audit Committee is kept under review with the expectation that any such matters which come to light are included in the review scheduled for FY 2019.

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

The Audit Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary.

The Chair of the Audit Committee reports to the subsequent Board meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

The role and responsibilities of the Audit Committee are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the auditor, Company financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, known as Group Assurance, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the 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 any confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all corporate employees which is consistent with the Company's overall statement of business ethics.

Key activities of the Audit Committee

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

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the auditor's half year and full year reports;
- reappointment and evaluation of the performance of the auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2018 regarding the level of achievement and the scope of the annual internal audit plan for FY 2019;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures including a summary of reports received during FY 2018.

Disclosure of significant issues considered

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 92 to 147.

The Audit Committee's review included consideration of the following key accounting judgements:

- Property, plant and equipment valuation – the assumptions used by management to value the long leasehold and freehold estate including estimated fair maintainable trading levels, brand multiples and use of spot valuations to ensure a consistent valuation methodology is in place. Short leasehold buildings, unlicensed land and buildings and fixtures, fittings and equipment are held at cost less depreciation and impairment. The revaluation methodology is determined by using management judgement, with advice taken from third-party valuers;
- Valuation of onerous lease provisions – determination of whether a loss is unavoidable requires areas of judgement which include consideration of potential future investment decisions, local conditions which may be impacting on current performance and the opportunity to surrender a lease back to the landlord;
- Pension deficit – the pension liability is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation which have an impact on the valuation of the defined benefit pension scheme has been assessed by the Audit Committee. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities. Management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation;
- Covenants – the headroom on the covenants within the securitised estate, together with an evaluation of the mitigating options available to management (to ensure there is reasonable assurance that should a covenant be close to being breached, management have further actions that could be undertaken to prevent such a breach occurring), have been reviewed in detail by management and assessed by the Audit Committee; and
- Separately disclosed items – judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Effectiveness of internal audit

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

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the audit plan on a quarterly basis. The FY 2018 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit. A similar approach has been employed in relation to the FY 2019 internal audit plan.

The principal objectives of the internal audit plan for FY 2018 were, and remain for FY 2019:

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

During FY 2018, 17 audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee. Internal audit recommendations are closely monitored through to closure via a web-based recommendation tracking system, introduced in FY 2013 and updated in FY 2018, which has significantly improved the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

In FY 2018, a comprehensive tender process was undertaken regarding the co-sourced Group Assurance function. PwC were successfully re-appointed based upon overall merit and quality of the team, to provide Group Assurance audit services to M&B for a further two-years.

Risk management framework

As disclosed in the 'Risk and uncertainties' section on pages 38 to 42 the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chairman)
- Group Finance Director
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Head of Legal

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, within the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks. During FY 2018, Risk Committee meetings continued to include a cross-functional, detailed review of the Group's key risks. This process, which was introduced in FY 2016, continues to prove to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

Actions arising from Risk Committee meetings are followed up by the Group Risk Director. The Audit Committee reviews the Risk Committee minutes, in addition to undertaking a quarterly review of the Group's 'Key Risk Heat Map'.

Confidential reporting

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2018 (major issues being defined for this purpose as matters having a financial impact of greater than £100k).

External auditor appointment

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The most recent audit partner rotation took place in 2016 whereby John Charlton became the lead Audit Partner. The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. Under the terms of that Order, the Committee expects to carry out a competitive audit tender by no later than 2020 in respect of the financial year ending in 2021 to ensure the continued objectivity, independence and value for money of the statutory audit. It may choose to do so at an earlier time.

The Audit Committee considers that the relationship with the auditor is working well and is satisfied with its effectiveness and has not considered it necessary to require Deloitte LLP to re-tender for the external audit work. There are no contractual obligations restricting the Company's choice of auditor.

External auditor's independence

The external auditor should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's auditor as set out below. That policy has been reviewed in FY 2018 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Company's website. Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

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

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

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

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

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the audit firm. Details of the remuneration paid to the auditor, and the split between audit and non-audit services, are set out in note 2.3 of the financial statements on page 112.

External audit annual assessment

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

Fair, balanced and understandable statement

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

- formal minutes of the year end working group comprised of relevant internal functional representatives and appropriate external advisers;
- clear guidance being issued to all contributors to ensure a consistent approach; and
- formal review processes at all levels to ensure the Annual Report is factually correct.

Colin Rutherford Chairman of the Audit Committee

21 November 2018

The Going Concern and Long-Term Viability Statements
can be found on pages 105 and 42 respectively

Imelda Walsh Chair of the Remuneration Committee

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

Background and business context

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

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

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

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

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

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

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

2018 remuneration

Annual bonus

For 2018 the annual bonus plan had four elements: Adjusted Operating Profit (hereafter referred to as Operating Profit¹), Guest Health, Employee Engagement and Food Safety. The plan measures reflect the overall business scorecard aligning all employees from Executive Directors through to Retail Management employees.

Operating Profit

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

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

The Group delivered an Operating Profit of £303m, which was 99% of the performance required for an on-target award, resulting in a payout of 28% of salary (out of 70%) for Executive Directors. The Committee reflected on whether this represented a good performance for the year and also versus the prior year and concluded that it did, given the unprecedented cost challenges and our continuing outperformance versus competitors¹.

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

Guest Health (0% out of 15%)

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

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

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

Employee engagement (6.3% out of 10%)

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

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

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

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

Food safety (5% out of 5%)

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

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

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

Final bonus outcome

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

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

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

Performance Restricted Share Plan ('PRSP')

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

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

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

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

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

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

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

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

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

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

Remuneration policy and changes to the UK Corporate Governance Code

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

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

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

Approach for FY 2019

Salary

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

Annual bonus

No changes are proposed to the annual bonus structure for 2019

Operating Profit (70%)

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

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

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

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

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

2019–21 PRSP

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

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

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

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

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

Imelda Walsh Chair of the Remuneration Committee

21 November 2018

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

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

Executive Remuneration at a glance

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

FY 2018 single figure remuneration for Executive Directors

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

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

FY 2018 annual bonus

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

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

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

FY 2018 PRSP vesting

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

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

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

Approach for FY 2019

Components of remuneration

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

Fixed

	Salary
+	Benefits and pension
=	Fixed total

Variable

	Annual bonus
+	PRSP and shares
=	Fixed total

Fixed components

Salary

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

Benefits and pension

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

Phil Urban Chief Executive	£520,000 +2%
Tim Jones Finance Director	£435,000 +2%

Variable components

Annual bonus

No change to potential quantum – 100% of salary

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

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

PRSP

Award levels (unchanged)	Phil Urban Chief Executive	200% salary
	Tim Jones Finance Director	140% salary
Measures and targets	Threshold Target Range Maximum ← 25% of this element vests 100% of this element vests →	
	£1,332m	Operating Cash Flow
	Median	£1,362m
	Total Shareholder Return	Median +8.5% p.a.

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

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

Share ownership guidelines

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

Phil Urban Chief Executive	200% salary
All other Executive Directors	150% salary

Remuneration context

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

Mitchells & Butlers' remuneration principles

Shareholder alignment

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

Competitive

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

Performance-linked

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

Straightforward

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

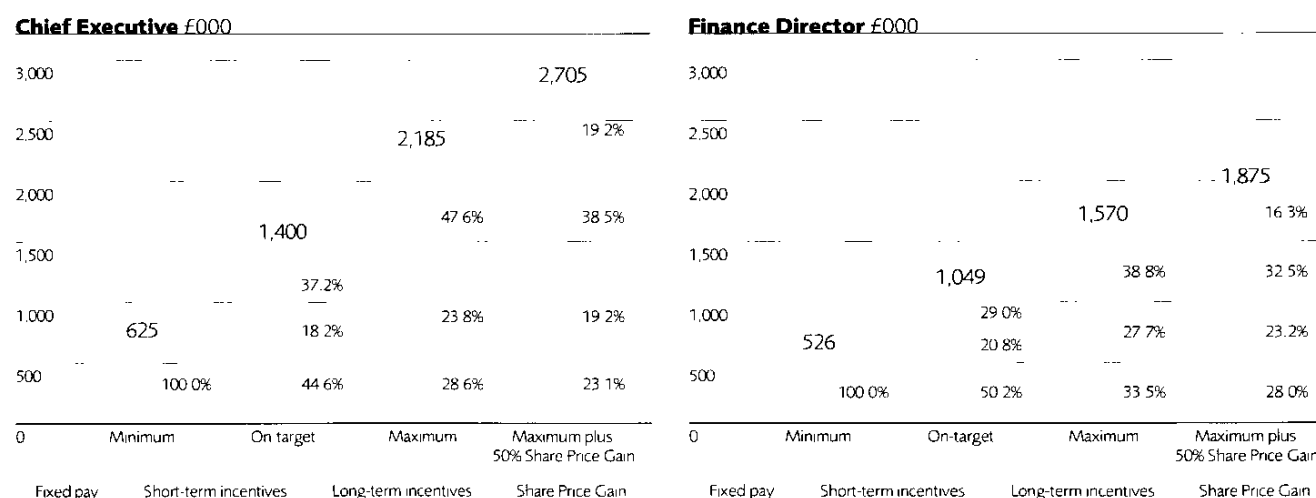
Alignment of Executive pay to strategy

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

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

Illustrations of the application of remuneration policy

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



Report on Directors' remuneration continued

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

Minimum

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

On-target

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

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

Maximum

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

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

Share Price Gain

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

Remuneration below Executive Director level

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

	Base pay	Bonus	Long-term incentives	All-employee share plans
Executive Directors	Pay broadly around mid-market levels.	Bonus schemes for all schemes align to the business scorecard.	Measures and targets for long-term incentive plans consistent for all participants.	All employees can participate in any of the all-employee share schemes, subject to qualifying service, building a stake in the business.
Executive Committee	Overall, increases (in percentage terms) consistent across all salaried employee groups.	The majority of bonus opportunity is linked to financial performance.		
Senior management				
Support Centre				
Retail managers				
Retail team members	Pay set in line with market requirements and closely monitored. Base pay for many employees is ahead of the statutory minimums. Many employees benefit from tip and service charge, and it is Mitchells & Butlers' policy to pass 100% of these earnings on to employees.	Our pay approach is aimed at providing regular and predictable earnings through competitive base pay for our retail team members. This is valued more highly than variable pay elements for retail team members and is in line with our 'competitive' and 'straightforward' remuneration principles.		

Pay ratios and gender pay

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

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

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

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

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

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

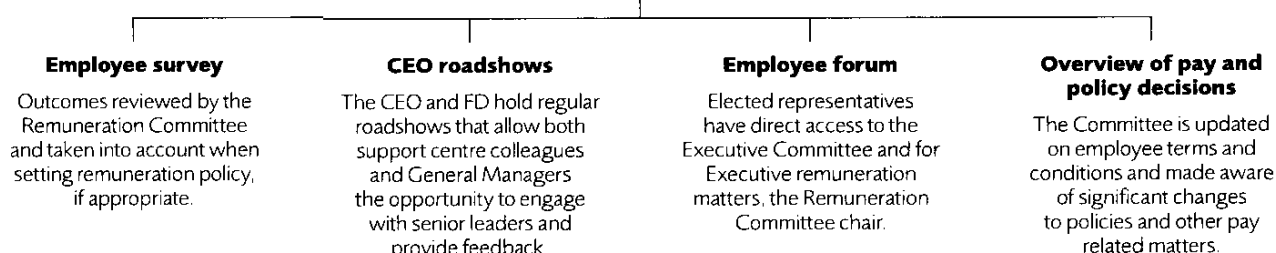
More than just pay

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

Workforce engagement

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

Remuneration Committee



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

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

Annual report on remuneration

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

Committee terms of reference

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

The Committee's main responsibilities include:

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

Committee membership and operation

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

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

* Independent Non-Executive Directors

Committee activity during the year

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

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

Advice to the Committee

The Committee received advice from New Bridge Street ('NBS'), a trading name of Aon Plc, until June 2018. From June 2018 the Committee received advice from PwC on an interim basis pending the outcome of a competitive tender process. Both NBS and PwC are signatories to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. Total fees payable in respect of remuneration advice to the Committee in the reporting year totalled £75,962¹ (NBS £68,762 and PWC £7,200). Aon Plc provided advice on a potential insurance product, but no fees have been paid in respect of such advice in FY 2018.

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

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

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

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

Statement of voting at AGM

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

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

a. The 'For' vote includes those giving the Company Chairman discretion.

b. A vote withheld is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' the resolution.

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

Pay outcomes

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

Directors' remuneration

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

Executive Directors

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

Report on Directors' remuneration continued

Non-Executive Directors

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

Note: All 2017 figures are shown on a 53 week basis

a Taxable benefits for the year comprised car allowance, healthcare and taxable expenses

b Based on the value of supplements paid in lieu of contributions to the Company Scheme.

c The base salary for Phil Urban is £510,000 and for Tim Jones £426,500. The figures set out are the actual salaries received over the financial year, which had 364 days

d Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses)

e This amount includes the additional fee approved by the Board and paid in respect of the work carried out by Mr Rutherford in leading the Company's discussions with the trustee of the Company's two defined benefit schemes which resulted in the agreement of the 2016 triennial valuations of those schemes as described more fully on page 45 of the Annual Report

f Includes the award of free shares and the value of the discount applied to Sharesave options awarded during the year

Annual performance bonus and STDIP

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

	Threshold – 95% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)	Outcome (% of salary payable)
Adjusted Operating Profit ^a (70%)	£290.7m (0%)	£306m (35%)	£315.2m (70%)	£303m (28%)
	Target	Calculation of outcome (% of salary payable)		Outcome (% of salary payable)
Guest Health (15%)				
Net Promoter Score ('NPS')	61	Each element is scored 1 if better than target, 0 if on target, and -1 if below target.		62.1 (0%)
Social Media Score	4.0	• If the sum of these scores is +3 then maximum bonus is paid. (15%)		3.9 (0%)
Complaints Ratio	0.67	• If the sum of these scores is +1 or +2 then an on-target payment would be made. (7.5%)		0.70 (0%)
		• If the sum of these scores is 0 then threshold bonus is paid. (3.75%)		
	Threshold (% of salary payable)	Target (% of salary payable)	Maximum (% of salary payable)	Outcome (% of salary payable)
Employee Engagement (10%)*	77 (2.5%)	78.5 (5%)	80 (10%)	78.9 (6.3%)
		Target (% of salary payable)		Outcome (% of salary payable)
Food Safety (5%)		96.9% (5%)		98.0% (5%)

* Payout is on a straight-line basis between points

Operating Profit

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

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

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

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

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

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

Guest Health (0% out of 15%)

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

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

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

Employee engagement (6.3% out of 10%)

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

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

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

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

Report on Directors' remuneration continued

Food safety (5% out of 5%)

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

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

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

Final bonus outcome

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

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

Long-term incentives vesting during the year

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

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

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

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

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

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

Long-term incentive awards made in FY 2018

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

Operating Cash Flow – 75% of the award

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

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

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

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

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

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

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

Report on Directors' remuneration continued

Rationale for the retention of TSR as a performance measure

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

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

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

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

Summary of investor consultation

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

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

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

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

** Comprising of EI Group, Greene King, Marston's, The Restaurant Group, JD Wetherspoon and Whitbread.

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

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

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

* Market price is the MMQ on the day prior to the award being made

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

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

All-employee SIP and Sharesave

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

Sharesave

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

SIP

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

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

PRSP, STDIP and other share awards

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

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

a 50% of this PRSP award is subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets

b Shares awarded to Phil Urban on joining the Company as Chief Operating Officer in January 2015

c The 2016–18 plan will lapse in November 2018

d 75% of this PRSP award is subject to an Operating Cash Flow target and the remaining 25% is subject to a TSR condition

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

Report on Directors' remuneration continued

Update on forecast performance of other PRSP awards

2017–19 PRSP

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

Directors' interests

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

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

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

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

a Includes Free Shares and Partnership Shares granted under the SIP

b Options granted under the Sharesave as detailed in the table on page 85 and deferred bonus awards granted under the STDIP

c Options granted under the PRSP as detailed in the table on page 84

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

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

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

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

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

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

Fees for external directorships

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

Payment for loss of office

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

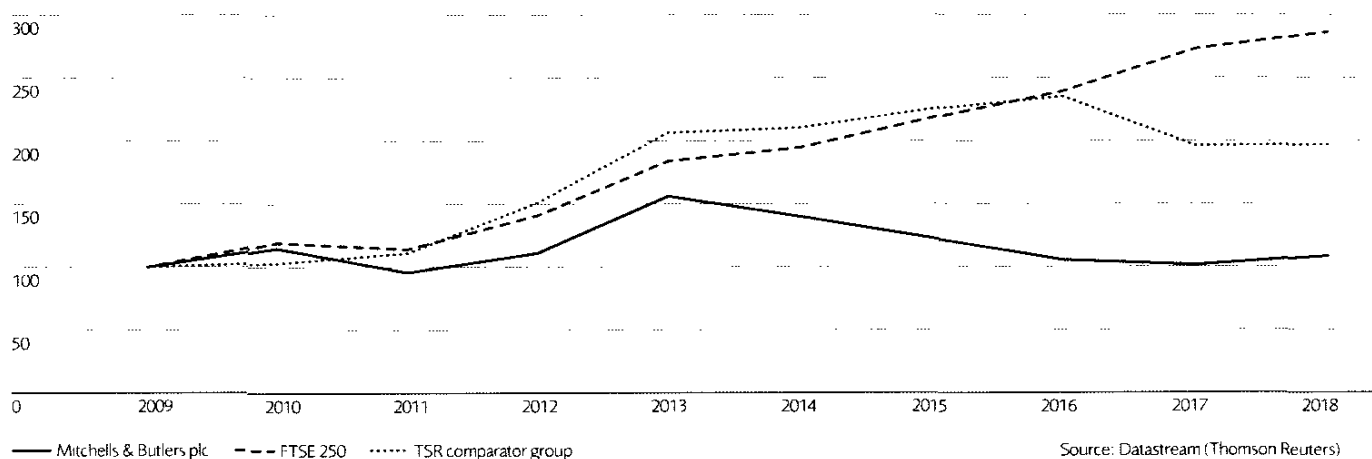
Payments to past Directors

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

TSR performance graph

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

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



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

Report on Directors' remuneration continued

CEO earnings history

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

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

Change in remuneration of the CEO

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

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

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

CEO pay ratios

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

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

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

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

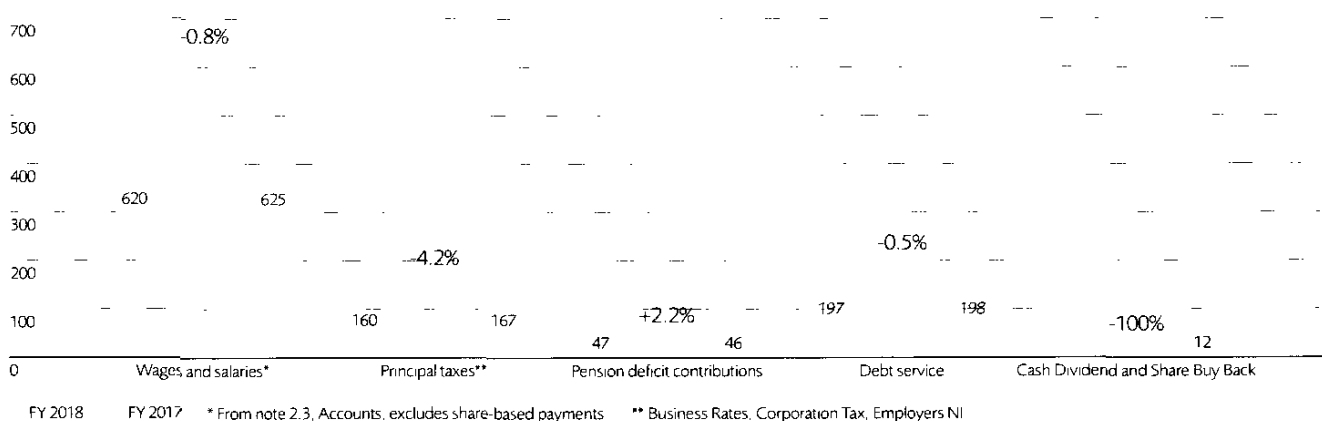
Pay details for the individuals are set out below:

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

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

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

Relative importance of spend on pay £m



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

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

Report on Directors' remuneration continued

Details of service contracts and letters of appointment

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

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

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

Non-Executive Directors

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

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

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

Implementation of remuneration policy in FY 2019

Executive Directors' salary review

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

Annual performance bonus

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

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

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

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

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

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

Performance Restricted Share Plan (PRSP) 2019–21

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

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

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

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

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

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

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

** Comprising EI Group, Greene King, Marston's, The Restaurant Group and JD Wetherspoon

Non-Executive Directors' fee review

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

Imelda Walsh Chair of the Remuneration Committee

21 November 2018

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

Financial statements

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Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 29 September 2018 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement;
- the related notes 1 to 5 of Group financial statements; and
- the related notes 1 to 10 of the Company financial statements

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Valuation of the pub estate - Onerous lease provisions - Compliance with debt covenants
Materiality	The materiality that we used for the group financial statements was £8.8m which is approximately 5% of profit before tax before separately disclosed items.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with 2017.
Significant changes in our approach	There has been a new key audit matter identified in relation to compliance with debt covenants. There have been no other changes in the key audit matters included in our audit report since 2017. This is consistent with the fact that the operations of the Group are largely unchanged from the previous year.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement in Section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 38 to 42 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 39 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 42 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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

There has been a new key audit matter identified in the year in respect of compliance with the EBITDA to debt service restricted payment test. Given the challenges in the industry with high levels of competition and inflationary cost pressures, there remains a risk that the Group does not achieve the required level of profit to meet the EBITDA to debt service restricted payment test.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of the pub estate		
As set out in section 3.1 the value of the estate is £4,230m (2017 £4,230m).	We worked with our property valuation specialists and management's external advisers to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub estate valuation. This included:	We are in agreement with the methodology chosen and the assumptions adopted to revalue the pub estate and conclude there appears to be no bias in the valuation. The multiples adopted across the estate are within a reasonable range. We concur that the valuations are suitable for inclusion in the financial statements.
Freehold and long leasehold The accounting policy adopted and judgements used are described in section 3.1 to the financial statements. This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 29 September 2018 is £4,230m (2017 £4,230m). The revaluation exercise performed in the year has resulted in a net decrease of £33m versus carrying value (2017 £23m), which includes an impairment charge of £28m (2017 £51m) recognised in the income statement. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels and estimated multiples which are derived for each of the Group's trading brands. Approximately 20% of the freehold and long leasehold estate has been inspected by the Group's external valuers, with the result of the inspection informing the brand standard multiples which are then extrapolated across the remainder of the estate. In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied. Where sites have been impacted by expansionary capital investment in the preceding 12 months, the valuation of those properties is held at the 30 September 2017 valuation plus capital expenditure less depreciation in 2018. Sites that have been open for more than three periods (2017 three periods) are reviewed for impairment.	- confirming the appropriateness of the estimated FMT being used to value the properties; - obtaining evidence to support the appropriateness of the valuations of the inspected estate when benchmarked to transaction activity in the licensed retail property market; - testing the application of the multiple derived from the valuation of inspected properties to the rest of the estate; - completing a retrospective review of the valuation of sites subject to expansionary capital investment in the prior year to identify the success of returns on investment; - reviewing the appropriateness and completeness of any spot valuations made; and - obtaining evidence to support the future projected income used in the impairment reviews for sites which have been impacted by expansionary capital investment in the preceding 12 months. Additionally we: - assessed the design and implementation and tested the operating effectiveness of controls in relation to the valuation of the freehold and long leasehold estate.	
Short leasehold The accounting policy adopted and judgements used are described in section 3.1 to the financial statements. The total value of short leasehold properties as at 29 September 2018 is £156m (2017 £170m). Judgements in relation to expected trading levels, whether the site has the potential to be turned around and discount rates are applied when calculating short leasehold property impairments. The Group recorded an impairment charge of £15m (2017 £17m) in the year.		

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of the pub estate continued		
Focus areas Given the amounts capitalised and the risk associated across the freehold, long leasehold and short leasehold sites we have focused our procedures on the assessment made by management of: - the appropriateness of the fair maintainable trading levels and brand multiple assumptions applied to the freehold and long leasehold estate on a site by site basis; - the valuation of freehold and long leasehold sites impacted by expansionary capital, challenging the need for any impairment of property, plant and equipment required at an individual outlet level; and - the requirement for any impairment in respect of the property, plant and equipment held in the short leasehold estate at an individual outlet level. In addition, due to the level of subjective judgements involved in respect of multiple and fair maintainable trade assumptions which are inherently uncertain, we have identified a potential risk of fraud in this key audit matter.	We challenged the assumptions used by management within the impairment reviews performed for the short leasehold estate and freehold and long leasehold sites impacted by expansionary capital. This included: - obtaining evidence to support management's assertion that short leasehold properties can be successfully turned around where properties have not been impaired due to management's expectation that the performance of the properties will improve. This included obtaining evidence to support management's turnaround plans and performance of a retrospective review considering the success of historic turnaround plans; - obtaining evidence to support management's expected performance of sites post investment of expansionary capital and a retrospective review of prior year sites where expansionary capital was incurred; - testing the integrity of the information used within the model by agreeing inputs back to source data including historical results and lease terms; and - assessing the appropriateness of the discount rate through recalculation and performing sensitivity analysis. Additionally, we assessed the design and implementation and tested the operating effectiveness of controls in relation to the short leasehold impairment review.	
Onerous Lease Provisions		
As set out in section 3.3, property provisions are £43m (2017 £42m) of which £41.9m (2017 £41.9m) relates to onerous lease provisions. The accounting policy for provisions is set out in section 3.3. Loss-making short leasehold properties are reviewed by management to determine whether an onerous lease provision is required. Judgements in relation to expected trading levels, the appropriate lease term over which to provide, the potential opportunity to exit the leases early and the appropriate discount rate to use are applied when assessing the level of onerous lease provision required. Therefore we have identified a potential risk of fraud in this key audit matter.	We performed the following procedures to respond to the key audit matter: - we assessed the appropriateness of the classification of property provisions provided in the period as a before separately disclosed item in accordance with IAS 1 Presentation of Financial Statements; - we checked that all leasehold sites were considered in management's process to identify sites which were potentially subject to onerous leases; - where onerous lease provisions have not been recognised, despite historical results indicating that a provision may be required, we obtained evidence to support management's assertion that properties can be successfully turned around. This included assessing the success of previous actions undertaken by management to turn around similar sites; - we tested a sample of loss making short leasehold and unlicensed properties to create an expectation of the appropriate level of onerous lease provision for each property within our sample and compared our expectation with the level of onerous lease provision for each property; - we assessed the appropriateness of forecast EBITDAs taking into consideration the cost saving and sales opportunities identified by management following a benchmarking exercise; - we tested the integrity of the information used within the onerous lease provision calculation by agreeing inputs back to source data including historical results, and rental commitments; and - we assessed the appropriateness of the risk free discount rate used through comparison to appropriate external benchmarks. Additionally we assessed the design and implementation and tested the operating effectiveness of controls in relation to the calculation of the onerous lease provision.	We agree that the level of onerous lease provision is within a reasonable range and that the presentation of the movements in onerous lease provision is in accordance with IAS 1.
Focus areas Given the size of the leasehold estate there is a risk that where a site is underperforming the cash flows may not be adequate to cover future lease obligations, resulting in the requirement for an onerous lease provision for the unavoidable cash flow. We focused on the completeness of the onerous lease provision by assessing the judgements used in arriving at the level of the provision for each site. Furthermore, we also focused on sites where a turnaround or exit plan is in place.		

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Compliance with debt covenants		
The primary source of borrowings for the Group are secured loan notes of £1,784m at 29 September 2018. This debt is secured on the majority of the properties owned by the Group (properties held within a subsidiary Company Mitchells & Butlers Retail Limited). The Group also has £150m of unsecured credit facilities. There are covenants attached to both the secured loan notes and the unsecured revolving credit facilities Given challenges in the industry with high levels of competition, inflationary cost pressures and increasing uncertainties around Britain exiting from the European Union, we identified that the forecasting of EBITDA during the long-term viability period is subject to significant judgements and estimates. The key risk identified is the Group's ability to meet the forecasted EBITDA over the longer-term viability period for the financial covenants attached to the secured loan notes. This test is measured at each quarter end date for Mitchells & Butlers Retail Limited. Debt covenants are further disclosed within Note 4.2 of the Group Financial Statements, as well as being disclosed in the Long-Term Viability Statement.	We performed the following procedures to respond to the key audit matter: - assessed the design and implementation of controls in relation to the management review of Budget and covenants calculations; - reviewed management's going concern and longer-term viability assessment, by challenging management to understand the key drivers forming the basis of the EBITDA forecasts and challenging the assumptions used in the base case scenario using industry forecasts, historical performance and our understanding of the business; - challenged the appropriateness of the reasonably possible sensitivities used in management's downside scenario over the longer-term viability period; - reviewed and challenged management's key assumptions by reference to independent industry sources and relevant supporting evidence and sensitising the impact these have on management's assessment of the profitability; - considered the feasibility of the mitigating actions that management have at their disposal should the financial covenant test be close to being breached; and - reviewed the disclosures on going concern and longer-term viability to confirm that they are consistent with the knowledge we have acquired during the course of our audit and to confirm that the disclosures are consistent with the overall requirement for the Annual Report to be fair, balanced and understandable.	We have considered reasonably possible downside scenarios and we have identified that adequate headroom exists. Furthermore, we are in agreement that should a covenant be close to being breached, management have further actions that could be undertaken in order to prevent such a breach occurring. Therefore, we concur with the management assumptions made in relation to going concern and long-term viability of the Group and the resulting disclosures included in the long-term viability statement.

Our application of materiality

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

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

	Group financial statements	Company financial statements
Materiality	£8.8m (2017 £8.75m)	£8.5m (2017 £8.7m)
Basis for determining materiality	Approximately 5% (2017 5%) of profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and short leasehold impairment and separately disclosed pension legal costs. Adjusted items relate to separately disclosed items in note 2.2 (2017 profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and short leasehold impairment and the separately disclosed onerous lease provision charge).	Parent company materiality equates to 0.4% of net assets, which is capped at 97% of Group materiality.
Rationale for the benchmark applied	Profit before tax before separately disclosed items is a key measure used by the Group in reporting its results to allow a better understanding of the adjusted trading of the Group and is also a key measure considered by users of the accounts.	The parent company does not trade or exist for profit generating purposes so materiality has been determined using net assets.

Adjusted PBT £178m

Group
materiality
£9m

Component
materiality range
£8m

Audit Committee
reporting threshold
£0.44m

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £440,000 (2017 £437,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business which accounts for 99% (2017 99%) of the Group's total assets, 96% (2017 97%) of revenue and 96% (2017 98%) of operating profit. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2017. At the parent entity level we also tested the consolidation process, as well as the parent balance sheet to parent company materiality.

In responding to the assessed risks of material misstatement, the audit engagement team sought to place reliance on the operating effectiveness of the Group's controls in relation to revenue, food and drink expenditure, property, plant and equipment, onerous lease provisions and valuation of the pub estate.

Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £1 to £8.5m (2017 £0.27m to £8.7m).

	Full audit scope	Review at group level
Revenue	96%	4%
Profit before tax	96%	4%
Net assets	99%	1%

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, Group Assurance, in-house legal counsel, including the Company Secretary and General Counsel, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;

- discussing among the engagement team and involving relevant internal specialists, including tax, pensions, IT and property specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of pub estate, onerous lease provisions and compliance with debt covenants; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified valuation of the pub estate, onerous lease provisions and compliance with debt covenants as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing Group Assurance reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years, covering the years ending 24 September 2011 to 29 September 2018.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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.

John Charlton FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

21 November 2018

Group income statement

For the 52 weeks ended 29 September 2018

	Notes	2018 52 weeks			2017 53 weeks		
		Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m	Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m
Revenue	2.1, 2.3	2,152	–	2,152	2,180	–	2,180
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(1,730)	(6)	(1,736)	(1,751)	(35)	(1,786)
Net profit arising on property disposals	2.2, 2.3	–	1	1	–	1	1
EBITDA^b		422	(5)	417	429	(34)	395
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(119)	(43)	(162)	(115)	(72)	(187)
Operating profit/(loss)		303	(48)	255	314	(106)	208
Finance costs	4.3	(119)	–	(119)	(125)	–	(125)
Finance revenue	4.3	1	–	1	1	–	1
Net pensions finance charge	4.3, 4.5	(7)	–	(7)	(7)	–	(7)
Profit/(loss) before tax		178	(48)	130	183	(106)	77
Tax (charge)/credit	2.2, 2.4	(33)	7	(26)	(37)	23	(14)
Profit/(loss) for the period		145	(41)	104	146	(83)	63
Earnings per ordinary share							
– Basic	2.5	34.1p		24.5p	34.9p		15.1p
– Diluted	2.5	34.0p		24.4p	34.8p		15.0p

a. Separately disclosed items are explained and analysed in note 2.2

b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio

The notes on pages 105 to 142 form an integral part of these financial statements.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 29 September 2018

	Notes	2018 52 weeks £m	2017 53 weeks £m
Profit for the period		104	63
Items that will not be reclassified subsequently to profit or loss:			
Unrealised (loss)/gain on revaluation of the property portfolio	3.1	(5)	74
Remeasurement of pension liability	4.5	5	8
Tax relating to items not reclassified	2.4	–	(13)
		–	69
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		–	1
Cash flow hedges:			
– Gains arising during the period	4.4	16	60
– Reclassification adjustments for items included in profit or loss	4.4	34	53
Tax relating to items that may be reclassified	2.4	(8)	(19)
		42	95
Other comprehensive income after tax		42	164
Total comprehensive income for the period		146	227

The notes on pages 105 to 142 form an integral part of these financial statements.

Group balance sheet

29 September 2018

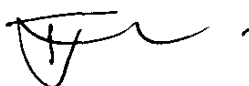
	Notes	2018 £m	2017 £m
Assets			
Goodwill and other intangible assets	3.4	11	10
Property, plant and equipment	3.1	4,426	4,429
Lease premiums		1	1
Interests in associates	3.5	5	–
Deferred tax asset	2.4	63	110
Derivative financial instruments	4.4	44	41
Total non-current assets		4,550	4,591
Inventories	3.2	26	24
Trade and other receivables	3.2	56	53
Other cash deposits	4.1	120	120
Cash and cash equivalents	4.1	122	147
Derivative financial instruments	4.4	4	2
Assets held for sale	3.1	–	1
Total current assets		328	347
Total assets		4,878	4,938
Liabilities			
Pension liabilities	4.5	(49)	(47)
Trade and other payables	3.2	(302)	(297)
Current tax liabilities		(9)	(3)
Borrowings	4.2	(233)	(235)
Derivative financial instruments	4.4	(37)	(43)
Total current liabilities		(630)	(625)
Pension liabilities	4.5	(200)	(245)
Borrowings	4.2	(1,744)	(1,827)
Derivative financial instruments	4.4	(207)	(249)
Deferred tax liabilities	2.4	(285)	(324)
Provisions	3.3	(43)	(42)
Total non-current liabilities		(2,479)	(2,687)
Total liabilities		(3,109)	(3,312)
Net assets		1,769	1,626
Equity			
Called up share capital	4.7	37	36
Share premium account	4.7	26	26
Capital redemption reserve	4.7	3	3
Revaluation reserve	4.7	1,197	1,202
Own shares held	4.7	(1)	(1)
Hedging reserve	4.7	(202)	(244)
Translation reserve	4.7	14	14
Retained earnings		695	590
Total equity		1,769	1,626

The notes on pages 105 to 142 form an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 21 November 2018.

They were signed on its behalf by:

Tim Jones Finance Director



Group statement of changes in equity

For the 52 weeks ended 29 September 2018

	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 24 September 2016	35	27	3	1,142	(1)	(338)	13	527	1,408
Profit for the period	–	–	–	–	–	–	–	63	63
Other comprehensive income	–	–	–	61	–	94	1	8	164
Total comprehensive income	–	–	–	61	–	94	1	71	227
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Dividends paid	–	–	–	–	–	–	–	(12)	(12)
Revaluation reserve realised on disposal of properties	–	–	–	(1)	–	–	–	1	–
Scrip dividend related share issue	1	(1)	–	–	–	–	–	–	–
Tax on share-based payments taken directly to equity	–	–	–	–	–	–	–	1	1
At 30 September 2017	36	26	3	1,202	(1)	(244)	14	590	1,626
Profit for the period	–	–	–	–	–	–	–	104	104
Other comprehensive (expense)/income	–	–	–	(4)	–	42	–	4	42
Total comprehensive (expense)/income	–	–	–	(4)	–	42	–	108	146
Share capital issued	–	1	–	–	–	–	–	–	1
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Dividends paid	–	–	–	–	–	–	–	(7)	(7)
Revaluation reserve realised on disposal of properties	–	–	–	(1)	–	–	–	1	–
Scrip dividend related share issue	1	(1)	–	–	–	–	–	–	–
At 29 September 2018	37	26	3	1,197	(1)	(202)	14	695	1,769

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Group cash flow statement

For the 52 weeks ended 29 September 2018

	Notes	2018 52 weeks £m	2017 53 weeks £m
Cash flow from operations			
Operating profit		255	208
Add back: adjusted items	2.2	48	106
Operating profit before adjusted items		303	314
Add back:			
Depreciation of property, plant and equipment	2.3	116	113
Amortisation of intangibles	2.3	3	2
Cost charged in respect of share-based payments	4.6	3	2
Administrative pension costs	4.5	2	2
Operating cash flow before adjusted items, movements in working capital and additional pension contributions		427	433
(Increase)/decrease in inventories		(1)	1
Increase in trade and other receivables		(1)	(20)
Increase in trade and other payables		4	7
Decrease in provisions		–	(2)
Additional pension contributions	4.5	(48)	(46)
Cash flow from operations before adjusted items		381	373
Cash flow from adjusted items		(2)	–
Interest paid		(120)	(122)
Interest received		1	1
Tax paid		(20)	(26)
Net cash from operating activities		240	226
Investing activities			
Purchases of property, plant and equipment		(167)	(166)
Purchases of intangible assets		(4)	(3)
Proceeds from sale of property, plant and equipment		5	46
Acquisition of investment in associates	3.5	(5)	–
Net cash used in investing activities		(171)	(123)
Financing activities			
Issue of ordinary share capital		1	–
Dividends paid (net of scrip dividend)	4.7	(7)	(12)
Repayment of principal in respect of securitised debt	4.1	(82)	(77)
Net movement on unsecured revolving credit facilities	4.1	(6)	(25)
Net cash used in financing activities		(94)	(114)
Net decrease in cash and cash equivalents		(25)	(11)
Cash and cash equivalents at the beginning of the period		147	158
Cash and cash equivalents at the end of the period	4.1	122	147

The notes on pages 105 to 142 form an integral part of these financial statements.

Notes to the financial statements

Section 1 – Basis of preparation

General information

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 142.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on pages 1 to 45.

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

The Group's accounting reference date is 30 September. The Group draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 29 September 2018 includes 52 trading weeks and the period ended 30 September 2017 includes 53 trading weeks.

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

The Group's accounting policies have been applied consistently.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at the previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 1 to 45. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review.

In addition, note 4.4 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.2 to the financial statements, the Group's financing is based upon securitised debt and unsecured borrowing facilities.

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

Foreign currencies

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

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.13 (2017 £1 = €1.16), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2017 £1 = €1.13) and £1 = \$1.30 (2017 £1 = \$1.34) respectively.

Notes to the financial statements

Section 1 – Basis of preparation continued

Recent accounting developments

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these financial statements for the first time:

Accounting standard	Requirement	Impact on financial statements
Amendments to IAS 7: Disclosure Initiative	The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of borrowings (note 4.2) and certain derivatives (note 4.4). Reconciliations between the opening and closing balances of these items are provided in note 4.1 and 4.4 respectively. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year.	Apart from the additional disclosures in notes 4.1 and 4.4, the application of these amendments has had no impact on the Group's consolidated financial statements.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.	The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.
Annual Improvements to IFRSs: 2014 to 2016 Cycle	The Group has adopted the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014 to 2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale.	The amendments had no impact on the Group's consolidated financial statements.

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

Accounting standard	Effective date
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions	1 January 2018
IAS 40 (amendments) Transfer of Investment Property	1 January 2018
Annual Improvements to IFRSs: 2014–2016 Cycle	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advanced Consideration	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019 (subject to EU approval)
Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019 (subject to EU approval)
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019 (subject to EU approval)
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	1 January 2019 (subject to EU approval)

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. A review of the impact of IFRS 15 and IFRS 9 has been performed as described below. Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Impact of adoption of IFRS 15

IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue and is effective for financial periods beginning on or after 1 January 2018. It applies to the Group for the 52 weeks ending 28 September 2019. IFRS 15 has been introduced to provide a single, comprehensive framework for revenue recognition. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when the entity satisfies a performance obligation

IFRS 15 is not expected to have a material impact on the Group when it is adopted, as the majority of the Group's revenue is in relation to the sale of food and drink within pubs and restaurants, for which the consideration is known and the performance obligations are satisfied at the point of sale.

Impact of adoption of IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for financial periods starting on or after 1 January 2018. It applies to the Group for the 52 weeks ending 28 September 2019. IFRS 9 has been introduced to address some of the complexity contained within IAS 39 but also introduces the concept of earlier recognition of credit losses on loans and receivables.

The adoption of IFRS 9 is not expected to have a material impact on any reported balances in the financial statements, as following assessment by management, there are no financial assets that will require a change in treatment. The Group will be required to update its hedging documentation to reflect the requirements of IFRS 9. However, there will be no change to the effectiveness of the Group's cash flow hedges. In addition, there may be minor amendments to disclosures within the financial statements.

The following standard will have a material impact on the Group when it becomes effective.

Accounting standard	Effective date
IFRS 16 Leases	The standard replaces IAS 17 Leases when it becomes effective for accounting periods beginning on or after 1 January 2019. The Group currently expects to adopt IFRS 16 for the 52 week period ending 26 September 2020.

Notes to the financial statements

Section 1 – Basis of preparation continued

Impact of adoption of IFRS 16

IFRS 16 requires lessees to recognise a right-of-use asset and a corresponding liability for all leases except for low value assets or where the lease term is 12 months or less.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. As a result of this change, the income statement will include depreciation of the right-of-use asset and interest on the liability, rather than the rental expense recognised under IAS 17. Following transition, any unused onerous lease provision will transition to become a provision for impairment of right-of-use assets.

Furthermore, the classification of cash flows will also be impacted as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Accounting requirements for lessors is substantially unchanged from IAS 17.

IFRS 16 will be effective for the Group for the year ending September 2020. The Group currently has operating lease commitments of £670m as disclosed in note 2.3. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16 and hence the Group will recognise a right of use asset and corresponding liabilities, unless they qualify for low value or short-term exemption. The right of use asset will be depreciated on a straight-line basis over the life of the lease. Interest will be recognised on the lease liability, resulting in a higher interest expense in the earlier years of the lease term. The total expense recognised in the Income Statement over the life of the lease will be unaffected by the new standard. There will be no impact on cash flows, although the presentation of the Group cash flow statement will change significantly, with an increase in cash flows from operating activities being offset by an increase in cash flows from financing activities.

The Group has established a working group to ensure we take all the necessary steps to comply with the requirements of IFRS 16. The working group includes our outsource partners who manage estate activity as well as key members of our finance and property teams. Work has already commenced to collate relevant data, review available system solutions and agree relevant accounting policies.

Given the number of leases and historical data requirements to adopt the fully retrospective approach, the Group intends to apply the modified retrospective approach, with assets equal to liabilities, at transition. This approach will not require restatement of comparative information.

Given the complexities of IFRS 16 and the sensitivity to key assumptions such as discount rates, it is not yet practicable to fully quantify the effect of IFRS 16 on the financial statements of the Group.

Critical accounting judgements and estimates

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

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

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 3.3 Provisions
- Note 4.5 Pensions

Critical estimates are described in:

- Note 3.1 Property, plant and equipment
- Note 3.3 Provisions

Notes to the financial statements

Section 2 – Results for the year

2.1 Segmental analysis

Accounting policies

Operating segments

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance; operating and competitive risks; and return on invested capital.

The disclosure set out in the Annual Report and Accounts for 2017 included segmental information for the retail operating business and property business, with an internal rent charge being levied against the Group's retail operating units by the property business. With a stable estate, the internal rent charge is no longer used by the CODM as an indicator of performance as movements in this charge are insignificant. The business is focused on delivery of sales growth and control of short-term costs within its trading pubs, in order to maximise return from its existing estate.

The CODM uses EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures of the Group's results on an aggregated basis.

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.

Geographical segments

	UK		Germany		Total	
	2018 52 weeks £m	2017 53 weeks £m	2018 52 weeks £m	2017 53 weeks £m	2018 52 weeks £m	2017 53 weeks £m
Revenue – sales to third parties	2,071	2,100	81	80	2,152	2,180
Segment non-current assets ^a	4,428	4,430	10	10	4,438	4,440

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

2.2 Separately disclosed items

Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans.

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties, legal costs associated with the dispute in relation to the defined benefit pension scheme and material movements in the onerous lease provision.

Critical accounting judgements

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

Separately disclosed items are identified as follows:

- One-off legal costs associated with the ongoing court case between the Company and the Trustee of the Defined Benefit Pension scheme in relation to the rate of inflation applied to pension increases for certain sections of the membership. These costs would prevent year-on-year comparability of the Group's trading if not separately disclosed.
- Onerous lease provision – this provision is calculated on a site by site basis, with the majority of the additions for the prior period being disclosed separately. This prior period increase was the result of a full review of estate strategy and an update to the discount rate applied in calculating the provision. Due to the size of the resulting increase in the provision, this was disclosed separately.
- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Group and would prevent year-on-year comparability of the Group's trading performance if not separately disclosed.

Notes to the financial statements

Section 2 – Results for the year continued

2.2 Separately disclosed items continued

The items identified in the current period are as follows:

	Notes	2018 52 weeks £m	2017 53 weeks £m
Adjusted items			
Legal costs associated with the defined benefit pension scheme	a	(6)	–
Onerous lease provision additions	b	–	(35)
Total adjusted items recognised within operating costs		(6)	(35)
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio (see note 3.1):			
– Impairment arising from the revaluation	c	(28)	(51)
– Impairment of short leasehold and unlicensed properties	d	(15)	(17)
– Impairment of assets held for sale	e	–	(4)
Net movement in the valuation of the property portfolio		(43)	(72)
Total adjusted items before tax		(48)	(106)
Tax credit relating to above items		7	23
Total adjusted items after tax		(41)	(83)

- a. There are ongoing legal proceedings between the Company (as principal employer) and Mitchells & Butlers Pensions Limited (as Trustee) for which costs have been incurred both by the Company and by the Trustee but which the Company has agreed to pay. The legal proceedings are in relation to the Mitchells & Butlers Pension Plan (MABPP), whereby the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions, the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions of the Trust Deed and Rules, has made an application to court for those various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in late 2019.
- b. During the prior period, a review of estate strategy in relation to managed leasehold sites was completed, with specific focus on the challenges around loss-making sites and those located on retail and leisure parks. The losses were considered to be unavoidable for the remaining committed lease term. In addition, the discount rate applied in the calculation was also updated. As a result, the onerous lease provision increased significantly with the majority of this increase recognised as a separately disclosed item in the prior period. The net movement in the onerous lease provision in the current period has been included within adjusted profit as it is immaterial. See note 3.3 for further details.
- c. Impairment arising from the Group's revaluation of its pub estate where the carrying values of the properties exceed their recoverable amount. See note 3.1 for further details.
- d. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount. See note 3.1 for further details.
- e. Impairment recognised on reclassification of property, plant and equipment to assets held for sale.

2.3 Revenue and operating costs

Accounting policies

Revenue recognition

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

Revenue – goods and services

The majority of revenue comprises food and beverages sold in the Group's businesses. This revenue is recognised at the point of sale to the customer.

Operating leases – Group as lessor

Rental income is received from unlicensed and leased operations. Income from these operating leases is recognised on a straight-line basis over the term of the lease.

Operating profit

Operating profit is stated after charging adjusted items but before investment income and finance costs.

Supplier incentives

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

Operating leases – Group as lessee

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

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

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

Revenue is analysed as follows:

	2018 52 weeks £m	2017 53 weeks £m
Goods	2,142	2,169
Services	10	11
	2,152	2,180

Revenue from services includes rent receivable from unlicensed properties and leased operations of £9m (2017 £10m).

Operating costs are analysed as follows:

	2018 52 weeks £m	2017 53 weeks £m
Raw materials and consumables recognised as an expense ^a	564	573
Changes in inventory of finished goods and work in progress	(1)	1
Employee costs	676	682
Hire of plant and machinery	23	24
Property operating lease costs	63	62
Other costs	405	409
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	1,730	1,751
Other adjusted items (note 2.2)	6	35
	1,736	1,786
Net profit arising on property disposals	(1)	(1)
Depreciation of property, plant and equipment (note 3.1)	116	113
Amortisation of intangible assets (note 3.4)	3	2
Net movement in the valuation of the property portfolio (note 3.1)	43	72
Depreciation, amortisation and movements in the valuation of the property portfolio	162	187
Total operating costs	1,897	1,972

a Supplier incentives are included as a reduction to the raw materials and consumables expense. These are not disclosed separately as the value is immaterial.

Notes to the financial statements

Section 2 – Results for the year continued

2.3 Revenue and operating costs continued

Employee costs

	2018 52 weeks £m	2017 53 weeks £m
Wages and salaries	620	625
Share-based payments (note 4.6)	3	2
Total wages and salaries	623	627
Social security costs	45	48
Pensions (note 4.5)	8	7
Total employee costs	676	682

The average number of employees including part-time employees was 43,777 retail employees (2017 44,893) and 1,025 support employees (2017 998).

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 68 to 91.

Operating leases

Operating lease commitments – Group as lessee

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

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

	2018 £m	2017 £m
Due within one year	55	54
Between one and five years	196	199
After five years	419	440
	670	693

Operating lease receivables – Group as lessor

The Group leases a small proportion of its unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

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

	2018 £m	2017 £m
Due within one year	8	8
Between one and five years	26	27
After five years	45	45
	79	80

Auditor remuneration

	2018 52 weeks £m	2017 53 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated Group financial statements	0.1	0.1
– audit of the Company's subsidiaries financial statements	0.3	0.3
Total audit fees	0.4	0.4
Other fees to auditor:		
– audit related assurance services	0.1	0.1
Total non-audit fees	0.1	0.1

Auditor's remuneration of £0.3m (2017 £0.3m) was paid in the UK and £0.1m (2017 £0.1m) was paid in Germany.

2.4 Taxation

Accounting policies

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associate with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Taxation – income statement

	2018 52 weeks £m	2017 53 weeks £m
Current tax:		
– UK corporation tax	(28)	(20)
– Amounts over provided in prior periods	2	3
Total current tax charge	(26)	(17)
Deferred tax:		
– Origination and reversal of temporary differences	–	7
– Adjustments in respect of prior periods	–	(4)
Total deferred tax credit	–	3
Total tax charged in the income statement	(26)	(14)
Further analysed as tax relating to:		
Profit before adjusted items	(33)	(37)
Adjusted items	7	23
	(26)	(14)

The standard rate of corporation tax applied to the reported profit is 19.0% (2017 19.5%). The applicable rate has changed following the substantive enactment of the Finance (No.2) Act 2015 on 18 November 2015, which reduced the main rate of corporation tax from 20% to 19% from 1 April 2017.

The tax charge in the income statement for the period is higher (2017 lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2018 52 weeks £m	2017 53 weeks £m
Profit before tax	130	77
Taxation charge at the UK standard rate of corporation tax of 19.0% (2017 19.5%)	(25)	(15)
Expenses not deductible	(4)	(4)
Income not taxable	2	9
Adjustments in respect of prior periods	2	(1)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1)	(1)
Effect of different rates for deferred tax and corporation tax	–	(2)
Total tax charge in the income statement	(26)	(14)

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

Notes to the financial statements

Section 2 – Results for the year continued

2.4 Taxation continued

	2018 52 weeks £m	2017 53 weeks £m
Deferred tax in the income statement:		
Accelerated capital allowances	1	5
Retirement benefit obligations	(6)	(6)
Rolled over and held over gains	–	4
Depreciated non-qualifying assets	1	1
Unrealised gains on revaluations	5	7
Tax losses – UK	(2)	(6)
Tax losses – overseas	1	(2)
Total deferred tax credit in the income statement	–	3

Taxation – other comprehensive income

	2018 52 weeks £m	2017 53 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised losses/(gains) due to revaluations – revaluation reserve	1	(13)
– Unrealised gains due to revaluations – retained earnings	–	1
– Remeasurement of pension liability	(1)	(1)
	–	(13)
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– Gains arising during the period	(3)	(10)
– Reclassification adjustments for items included in profit or loss	(5)	(9)
	(8)	(19)
Total tax charge recognised in other comprehensive income	(8)	(32)

Tax relating to items recognised directly in equity

	2018 52 weeks £m	2017 53 weeks £m
Deferred tax:		
– Tax credit related to share-based payments	–	1

Taxation – balance sheet

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

	2018 £m	2017 £m
Deferred tax asset:		
Retirement benefit obligations (note 4.5)	43	50
Derivative financial instruments	42	50
Tax losses – UK	6	8
Tax losses – overseas	1	–
Share-based payments	2	2
Total deferred tax asset	94	110
Deferred tax liability:		
Accelerated capital allowances	(31)	(32)
Rolled over and held over gains	(112)	(112)
Unrealised gains on revaluations	(170)	(176)
Depreciated non-qualifying assets	(3)	(4)
Total deferred tax liability	(316)	(324)
Total	(222)	(214)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets and income tax liabilities and when it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities have been offset and disclosed in the balance sheet as follows:

	2018 £m	2017 £m
Deferred tax asset	63	110
Deferred tax liability	(285)	(324)
Net deferred tax liability	(222)	(214)

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £87m in respect of unclaimed capital allowances (2017 £80m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £15m (2017 £14m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 30 September 2017 and 29 September 2018.

2.5 Earnings per share

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

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

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

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 29 September 2018:			
Profit/EPS	104	24.5p	24.4p
Adjusted items, net of tax	41	9.6p	9.6p
Adjusted profit/EPSt	145	34.1p	34.0p
53 weeks ended 30 September 2017:			
Profit/EPS	63	15.1p	15.0p
Adjusted items, net of tax	83	19.8p	19.8p
Adjusted profit/EPSt	146	34.9p	34.8p

a Adjusted profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 148 to 150 of this report.

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

	2018 52 weeks m	2017 53 weeks m
For basic EPS calculations	425	418
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	2	1
For diluted EPS calculations	427	419

At 29 September 2018, 2,746,844 (2017 3,124,559) 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.

Notes to the financial statements

Section 3 – Operating assets and liabilities

3.1 Property, plant and equipment

Accounting policies

Property, plant and equipment

The majority of the Group's freehold and long leasehold licensed land and buildings are revalued annually and are therefore held at fair value less depreciation.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and fixtures, fittings and equipment are held at cost less depreciation and impairment.

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

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

Depreciation

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each year and adjusted if appropriate.

Freehold land is not depreciated.

Freehold and long leasehold buildings 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 buildings is reassessed each year and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures, fittings and equipment, are depreciated over the shorter of the estimated useful life and the unexpired term of the lease.

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

Information technology equipment 3 to 7 years

Fixtures and fittings 3 to 20 years

At the point of transfer to non-current assets held for sale, depreciation ceases. Should an asset be subsequently reclassified to property, plant and equipment, the depreciation charge is calculated to reflect the cumulative charge had the asset not been reclassified.

Disposals

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

Revaluation

The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; estimates of fair maintainable trade (FMT); and estimated resale value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its associated resale value. Where sites have been impacted by expansionary capital investment in the preceding twelve months, FMT is taken as the lower of the post investment forecast or the prior year FMT, as the current year trading performance includes a period of closure.

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

Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, for example, due to low levels of income or location characteristics, a spot valuation is applied.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Impairment

Short leasehold and unlicensed properties are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell and value in use. Any changes in outlet earnings, or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Critical accounting judgements

The revaluation methodology is determined using management judgement, with advice from third-party valuers. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of licensed land and buildings. Where sites have been impacted by expansionary capital investment in the preceding twelve months, management judgement is used to determine the most appropriate FMT. The FMT is taken as the lower of the post investment forecast or the prior year FMT, as the current year trading performance includes a period of closure.

Critical accounting estimates

The application of the valuation methodology requires two critical accounting estimates; the estimation of valuation multiples, which are determined via third-party inspections, and an estimate of fair maintainable trade, including reference to historic and future projected income levels. A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 118. The carrying value of properties to which these estimates apply is £4,230m (2017 £4,230m).

When a review for impairment is conducted for short leasehold properties, the recoverable amount is determined based on value in use calculations. The value in use calculation requires two critical accounting estimates; the estimation of future cash flows, including reference to historical and future projected income levels; and the selection of an appropriate risk-adjusted discount rate. A sensitivity analysis of changes in future cash flows and discount rate, in relation to the properties to which these estimates apply, is provided on page 118. The carrying value of properties to which these estimates apply is £156m (2017 £170m).

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 24 September 2016	3,934	1,107	5,041
Additions	43	120	163
Disposals ^a	(7)	(73)	(80)
Transfers to assets held for sale	(30)	(25)	(55)
Revaluation/(impairment)	13	(11)	2
At 30 September 2017	3,953	1,118	5,071
Additions	39	125	164
Disposals ^a	(12)	(123)	(135)
Revaluation/(impairment)	(41)	(7)	(48)
At 29 September 2018	3,939	1,113	5,052
Accumulated depreciation			
At 24 September 2016	77	541	618
Provided during the period	6	107	113
Disposals ^a	(5)	(72)	(77)
Transfers to assets held for sale	-	(12)	(12)
At 30 September 2017	78	564	642
Provided during the period	6	110	116
Disposals ^a	(10)	(122)	(132)
At 29 September 2018	74	552	626
Net book value			
At 29 September 2018	3,865	561	4,426
At 30 September 2017	3,875	554	4,429
At 24 September 2016	3,857	566	4,423

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

Certain assets with a net book value of £43m (2017 £44m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Included within property, plant and equipment are assets with a net book value of £3,788m (2017 £3,808m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 29 September 2018 includes £18m (2017 £10m) of assets in the course of construction.

Notes to the financial statements

Section 3 – Operating assets and liabilities continued

3.1 Property, plant and equipment continued

Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at fair value, as at 29 September 2018 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair 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.

Sensitivity analysis

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. The average movement in FMT of revalued properties in recent years is 1.0%. It is estimated that, given the multiplier effect, a 1.0% change in the FMT of the freehold or long leasehold properties would generate an approximate £37m movement in their valuation.

Multiples are determined at an individual brand level. The average movement in weighted average of all brand multiples in recent years is 0.1. It is estimated that a 0.1 change in the multiple would generate an approximate £42m movement in valuation.

Impairment review of short leasehold and unlicensed properties

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7.5% (2017 7.0%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

Sensitivity analysis

The Group has performed a sensitivity analysis on the impairment tests for its short leasehold properties using various reasonably possible scenarios. It is estimated that a 5.0% decline in the EBITDA of the short leasehold properties would generate an approximate £1m increase in the impairment charge.

It is also estimated that 0.5% increase in the discount rate would not result in a significant increase to the impairment charge. The movement of 0.5% is considered reasonable, given that the discount rate has increased by 0.5% in the current period.

Current year valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate. The impact of the revaluations/impairments described above is as follows:

	2018 52 weeks £m	2017 53 weeks £m
Income statement		
Revaluation loss charged as an impairment	(89)	(109)
Reversal of past impairments	61	58
Total impairment arising from the revaluation	(28)	(51)
Impairment of short leasehold and unlicensed properties	(15)	(17)
Impairment of assets held for sale	–	(4)
	(43)	(72)
Revaluation reserve		
Unrealised revaluation surplus	171	210
Reversal of past revaluation surplus	(176)	(136)
	(5)	74
Net (decrease)/increase in property, plant and equipment	(48)	2

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

The key inputs to valuation on property, plant and equipment are as follows:

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value* £m
29 September 2018				
Freehold properties	1,336	3,507	428	3,935
Long leasehold properties	95	259	36	295
Total revalued properties	1,431	3,766	464	4,230
Short leasehold properties		77	79	156
Unlicensed properties		14	2	16
Other non-pub assets		3	3	6
Assets under construction		5	13	18
Total property, plant and equipment		3,865	561	4,426

30 September 2017	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
Freehold properties	1,339	3,512	426	3,938
Long leasehold properties	95	256	36	292
Total revalued properties	1,434	3,768	462	4,230
Short leasehold properties		86	84	170
Unlicensed properties		14	2	16
Other non-pub assets		1	2	3
Assets under construction		6	4	10
Total property, plant and equipment		3,875	554	4,429

a The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,635m and £186m respectively (2017 £2,625m and £188m).

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

29 September 2018	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	48	6	166	170	10	400
£200k to £360k pa	–	12	311	138	15	476
> £360k pa	3	54	414	65	19	555
	51	72	891	373	44	1,431

30 September 2017	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	46	11	153	190	12	412
£200k to £360k pa	–	11	315	141	13	480
> £360k pa	2	52	406	59	23	542
	48	74	874	390	48	1,434

Year-on-year movements in valuation multiples are the result of changes in property market conditions. The average weighted multiple is 8.6 (2017 8.5).

In addition to the above, premiums paid on acquiring a new lease are classified separately in the balance sheet. At 29 September 2018 an amount of £1m (2017 £1m) was included in the balance sheet.

Assets held for sale

	2018 £m	2017 £m
Properties	–	1

In accordance with IFRS 5, properties categorised as held for sale are held at the lower of book value and fair value less costs to sell.

During 2017, £43m of properties were classified as held for sale. An impairment of £4m was recognised prior to reclassification. Subsequently, £42m of properties were sold, leaving £1m remaining as held for sale at the balance sheet date.

During 2018, the remaining £1m of properties were sold.

Capital commitments

	2018 £m	2017 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	24	23

Notes to the financial statements

Section 3 – Operating assets and liabilities continued

3.2 Working capital

Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Inventories can be analysed as follows:

	2018 £m	2017 £m
Goods held for resale	26	24

Trade and other receivables

Accounting policy

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

Trade and other receivables can be analysed as follows:

	2018 £m	2017 £m
Trade receivables	7	5
Other receivables	14	15
Prepayments	35	33
Total trade and other receivables	56	53

All amounts fall due within one year.

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

Credit risk is considered in note 4.4.

Trade and other payables

Accounting policy

Trade and other payables are recognised at amortised cost.

Trade and other payables can be analysed as follows.

	2018 £m	2017 £m
Trade payables	83	80
Other taxation and social security	64	70
Accrued charges	103	102
Other payables	52	45
Total trade and other payables	302	297

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

3.3 Provisions

Accounting policy

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

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

Critical accounting judgements

Determination of whether a loss is unavoidable requires areas of judgement such as consideration of potential future investment decisions, local conditions which may be impacting on current performance.

Critical accounting estimates

In relation to onerous property provisions, estimates are required in determining the future EBITDA performance of each site and the potential to exit leases earlier than the expiry date. A sensitivity analysis of changes in these estimates is provided below. The value of provisions to which these estimates apply is £43m (2017 £42m).

Provisions

The provision for unavoidable losses on onerous property leases has been set up to cover rental payments of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 25 years.

Provisions can be analysed as follows:

	Property leases £m
At 24 September 2016	9
Released in the period ^a	(1)
Provided in the period ^b	36
Unwinding of discount	1
Utilised in the period	(3)
At 30 September 2017	42
Released in the period ^a	(6)
Provided in the period ^b	11
Unwinding of discount	1
Utilised in the period	(5)
At 29 September 2018	43

- a. Releases in the prior period primarily related to property disposals. Releases in the current period primarily relate to improvement in performance of managed properties.
- b. During the prior period, a full review of estate strategy in relation to managed leasehold properties was completed, with specific focus on the challenges around loss-making sites and those located on retail and leisure parks. With lower footfall on many of these parks and the continued uncertain economic outlook, alongside increased cost pressures such as living wage, business rates review, apprenticeship levy, sugar tax and food price inflation, a number of short leasehold sites were considered to be challenged when striving to achieve a break-even profit performance. As a result, the losses were considered unavoidable for the remaining committed lease term for managed properties. In addition, the discount rate applied in the calculation was updated. As a result of these changes, a £35m increase in the provision was included as a separately disclosed item (see note 2.2). The remaining increase of £1m was recognised within adjusted profit, as this represented unavoidable losses on unlicensed properties.

Sensitivity analysis

The Group has performed a sensitivity analysis on the onerous lease provision calculation using various reasonably possible scenarios. It is estimated that a 5% decline in the future EBITDA performance of the sites included in the provision would generate an additional provision of £1m. It is also estimated that, should all leases with more than 10 years remaining on the committed lease term be exited two years ahead of expiry, the provision would reduce by £1m.

Notes to the financial statements

Section 3 – Operating assets and liabilities continued

3.4 Goodwill and other intangible assets

Accounting policies

Business combinations and goodwill

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

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

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 24 September 2016	7	11	18
Additions	–	3	3
At 30 September 2017	7	14	21
Additions	–	4	4
Disposals	–	(2)	(2)
At 29 September 2018	7	16	23
Accumulated amortisation and impairment			
At 24 September 2016	5	4	9
Provided during the period	–	2	2
At 30 September 2017	5	6	11
Provided during the period	–	3	3
Disposals	–	(2)	(2)
At 29 September 2018	5	7	12
Net book value			
At 29 September 2018	2	9	11
At 30 September 2017	2	8	10
At 24 September 2016	2	7	9

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

Goodwill has been tested for impairment on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 7.5% (2017 7.0%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 0.0% (2017 2.0%) growth per annum.

Notes to the financial statements

Section 3 – Operating assets and liabilities continued

3.5 Associates

Accounting policies

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. If after reassessment the Group's share of the net fair value of the identifiable assets and liabilities are in excess of the cost of the investment, this is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The nature of the activities of all of the Group's associates is trading in pubs and restaurants, which are seen as complementing the Group's operations and contributing to the Group's overall strategy.

Associates can be analysed as follows:

	£m
At 24 September 2016 and 30 September 2017	–
Acquisitions*	5
At 29 September 2018	5

* Acquisitions in the period relate to the shares purchased in 3Sixty Restaurants Limited and Fatboy Pub Company Limited. Details of these associates are provided in note 5.2

During the period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m. The current shareholders also have the option to sell the remaining 60% to the Company, subject to a number of conditions.

Notes to the financial statements

Section 4 – Capital structure and financing costs

4.1 Net debt

Accounting policy

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

Net debt

	2018 £m	2017 £m
Cash and bank balances	122	147
Cash and cash equivalents	122	147
Other cash deposits	120	120
Securitised debt (note 4.2)	(1,830)	(1,909)
Liquidity facility (note 4.2)	(147)	(147)
Revolving credit facilities (note 4.2)	–	(6)
Derivatives hedging securitised debt* (note 4.2)	47	45
	(1,688)	(1,750)

a Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US\$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt

	2018 52 weeks £m	2017 53 weeks £m
Net decrease in cash and cash equivalents	(25)	(11)
Add back cash flows in respect of other components of net debt:		
Repayment of principal in respect of securitised debt	82	77
Net movement on unsecured revolving facilities	6	25
Decrease in net debt arising from cash flows	63	91
Movement in capitalised debt issue costs net of accrued interest	(1)	(1)
Decrease in net debt	62	90
Opening net debt	(1,750)	(1,840)
Closing net debt	(1,688)	(1,750)

The net debt movement for the 52 weeks ended 29 September 2018 is represented by:

	At 30 September 2017 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Fair value movements £m	At 29 September 2018 £m
Cash and cash equivalents	147	(25)	–	–	122
Other cash deposits	120	–	–	–	120
Securitised debt*	(1,909)	82	(3)	–	(1,830)
Liquidity facility*	(147)	–	–	–	(147)
Revolving credit facilities*	(6)	6	–	–	–
Derivatives hedging securitised debt*	45	–	–	2	47
Net debt	(1,750)	63	(3)	2	(1,688)

* Liabilities arising from financing activities

The net debt movement for the 53 weeks ended 30 September 2017 is represented by:

	At 24 September 2016 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Fair value movements £m	At 30 September 2017 £m
Cash and cash equivalents	158	(11)	–	–	147
Other cash deposits	120	–	–	–	120
Securitised debt*	(1,995)	77	9	–	(1,909)
Liquidity facility*	(147)	–	–	–	(147)
Revolving credit facilities*	(31)	25	–	–	(6)
Derivatives hedging securitised debt*	55	–	–	(10)	45
Net debt	(1,840)	91	9	(10)	(1,750)

* Liabilities arising from financing activities

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.2 Borrowings

Accounting policy

Borrowings, which include the Group's secured loan notes, are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2018 £m	2017 £m
Current		
Securitised debt ^{a,b}	86	82
Liquidity facility	147	147
Unsecured revolving credit facilities	–	6
Total current	233	235
Non-current		
Securitised debt ^{a,b}	1,744	1,827
Total borrowings	1,977	2,062

a Further details of the assets pledged as security against the securitised debt are given on page 117

b Stated net of deferred issue costs

	2018 £m	2017 £m
Analysis by year of repayment		
Due within one year or on demand	233	235
Due between one and two years	142	130
Due between two and five years	328	307
Due after five years	1,274	1,390
Total borrowings	1,977	2,062

Securitised debt

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited ('MAB Retail'). On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consist of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding		
					29 September 2018 £m	30 September 2017 £m	Expected WAL ^a
A1N	200	Floating	2011 to 2028	6.21 ^b	131	142	6 years
A2	550	Fixed–5.57%	2003 to 2028	6.01	240	258	6 years
A3N	250	Floating	2011 to 2028	6.29 ^b	165 ^c	177 ^c	6 years
A4	170	Floating	2016 to 2028	5.97 ^b	150	159	6 years
AB	325	Floating	2020 to 2032	6.28 ^b	325	325	10 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	102	119	3 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	312	327	7 years
C1	200	Fixed–6.47%	2029 to 2030	6.56	200	200	11 years
C2	50	Floating	2033 to 2034	6.47 ^b	50	50	15 years
D1	110	Floating	2034 to 2036	6.68 ^b	110	110	17 years
	2,555				1,785	1,867	

a Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes

b After the effect of interest rate swaps

c A3N notes are US\$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £212m (2017 £222m). Therefore the exchange difference on the A3N notes is £47m (2017 £45m)

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

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

Tranche	Interest	Margin
A1N	3 month LIBOR	0.45%
A3N	3 month US\$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.2% (2017 6.1%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies. At 29 September 2018, Mitchells & Butlers Retail Limited had cash and cash equivalents of £54m (2017 £97m). Of this amount £1m (2017 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

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

	2018 £m	2017 £m
Principal outstanding at beginning of period	1,911	1,998
Principal repaid during the period	(82)	(77)
Exchange on translation of dollar loan notes	3	(10)
Principal outstanding at end of period	1,832	1,911
Deferred issue costs	(5)	(6)
Accrued interest	3	4
Carrying value at end of period	1,830	1,909

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. As a result of the decrease in credit rating of one of the counterparties, the Group was obliged to draw that counterparty's portion of the facility during the 52 weeks ended 27 September 2014. The amount drawn at 29 September 2018 is £147m (2017 £147m). These funds are charged under the terms of the securitisation and are not available for use in the wider Group.

The facility, which is not available for any other purpose, is sized to cover 18 months' debt service.

Unsecured revolving credit facilities

The Group holds three unsecured committed revolving credit facilities of £50m each, and uncommitted revolving credit facilities of £15m, available for general corporate purposes. The amount drawn at 29 September 2018 is £nil (2017 £6m). All committed facilities expire on 31 December 2020.

4.3 Finance costs and revenue

	2018 52 weeks £m	2017 53 weeks £m
Finance costs		
Interest on securitised debt	(114)	(120)
Interest on other borrowings	(4)	(4)
Unwinding of discount on provisions (note 3.3)	(1)	(1)
Total finance costs	(119)	(125)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 4.5)	(7)	(7)

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.4 Financial instruments

Accounting policies

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

Financial assets

All financial assets are recognised or derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

Impairment of financial assets

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

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

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

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

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.

Financial liabilities

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

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

Derecognition of financial assets and liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (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) over the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition. Finance charges are recognised on an effective interest basis for all debt instruments.

Derivative financial instruments and hedge accounting

The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied where the necessary criteria under IAS 39 Financial Instruments: Recognition and Measurement are met. Derivative instruments are not used for trading or speculative purposes.

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

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

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

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

Financial risk management

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

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

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

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with three committed unsecured revolving credit facilities of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted revolving credit facilities of £15m.

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

The maturity table below details the contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps.

	Within one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
29 September 2018^a							
Fixed rate: Securitised debt ^b	(195)	(198)	(201)	(201)	(200)	(1,687)	(2,682)
Floating rate: Liquidity facility	(147)	–	–	–	–	–	(147)
Trade and other payables	(302)	–	–	–	–	–	(302)
30 September 2017^a							
Fixed rate: Securitised debt ^b	(194)	(193)	(197)	(199)	(199)	(1,879)	(2,861)
Floating rate: Liquidity facility	(147)	–	–	–	–	–	(147)
Trade and other payables	(297)	–	–	–	–	–	(297)

a Assumes no early redemption in respect of any loan notes

b Includes the impact of the cash flow hedges

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.4 Financial instruments continued

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. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four-weekly basis.

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

The Group's credit exposure at the balance sheet date was:

	2018 £m	2017 £m
Cash and cash equivalents	122	147
Other cash deposits	120	120
Trade receivables	7	5
Other receivables	14	15
Derivatives	48	43

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the year, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2018 £m	2017 £m
Net debt (note 4.1)	1,688	1,750
Total equity	1,769	1,626
Total capital	3,457	3,376

Market risk

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

Foreign currency risk

The Group faces currency risk in two main areas:

At issuance of the Class A3N floating rate notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. The A3N notes have a carrying value of £212m (2017 £222m) and form part of the securitised debt (see note 4.2).

Sensitivity analysis

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ finance costs. A movement of 10% in the US\$ exchange rate would have a £nil (2017 £nil) impact on the reported Group profit and a £21m (2017 £22m) impact on the reported Group net assets.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk

The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IAS 39. The interest rate exposure resulting from the Group's £1.9bn 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.

Sensitivity analysis

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. A 1% movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period.

The Group's sensitivity to a 1% movement in interest rates is detailed below.

	2018 £m	2017 £m
Interest income ^a	2	2
Interest expense ^b	(1)	(2)
Profit impact	1	–
Derivative financial instruments (fair values) ^c	76	86
Total equity	77	86

a Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1)

b The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group

c The impact on total equity from movements in the fair value of cash flow hedges

Derivative financial instruments

Cash flow hedges

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

During the period a gain of £16m (2017 gain of £60m) on cash flow hedges was recognised in equity. A loss of £34m (2017 loss of £53m) was recycled from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 29 September 2018, the Group held ten (2017 ten) interest rate swap contracts with a nominal value of £931m (2017 £963m), designated as a hedge of the cash flow interest rate risk of £931m (2017 £963m) 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 4.8483% (2017 4.8558%). The contract maturity dates match those of the hedged item. The ten interest rate swaps are held on the balance sheet at fair market value, which is a liability of £244m (2017 £292m).

At 29 September 2018 the Group held one (2017 one) cross currency interest rate swap contract, with a nominal value of £165m (2017 £177m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate US\$276m (2017 US\$297m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £48m (2017 £43m).

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a floating rate of interest at LIBOR in sterling.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually.

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.4 Financial instruments continued

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 29 September 2018 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash flow hedges:					
– Interest rate swaps	–	–	(37)	(207)	(244)
– Cross currency swap	44	4	–	–	48
29 September 2018	44	4	(37)	(207)	(196)
30 September 2017	41	2	(43)	(249)	(249)

Reconciliation of movements in derivative values

The table below details changes in the Group's derivatives, including both cash and non-cash changes where appropriate. Changes in the Group's borrowings are disclosed in the net debt reconciliation in note 4.1.

	At 24 September 2016 £m	Fair value adjustments £m	At 30 September 2017 £m	Fair value adjustments £m	29 September 2018 £m
Cash flow hedges	(351)	102	(249)	53	(196)
Total derivatives	(351)	102	(249)	53	(196)

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

	2018		2017	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets:				
– Cash and cash equivalents	122	122	147	147
– Other cash deposits	120	120	120	120
– Derivative instruments in designated hedge accounting relationships	48	48	43	43
– Loans and receivables	21	21	20	20
Financial liabilities:				
– Borrowings at amortised cost	(1,977)	(1,939)	(2,062)	(2,076)
– Derivative instruments in designated hedge accounting relationships	(244)	(244)	(292)	(292)
– Trading and other payables	(302)	(302)	(297)	(297)
	(2,212)	(2,174)	(2,321)	(2,335)

The various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Fair value of financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:

- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

The table below sets out the valuation basis of financial instruments held at fair value by the Group:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value at 29 September 2018				
Financial assets:				
Currency swaps	–	48	–	48
Financial liabilities:				
Interest rate swaps	–	(244)	–	(244)
	–	(196)	–	(196)
Fair value at 30 September 2017				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Currency swaps	–	43	–	43
Financial liabilities:				
Interest rate swaps	–	(292)	–	(292)
	–	(249)	–	(249)

4.5 Pensions

Accounting policy

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit section of the plans is now closed to future service accrual. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

As the Company do not have an unconditional right to recover any surplus from the pension plans, IFRIC 14 requires the minimum funding liability to be recognised, where it is in excess of the actuarial liability. As such, the total pension liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability. The actuarial liability is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the scheme are recognised within operating costs in the income statement.

Remeasurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on scheme assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Curtailments and settlements relating to the Group's defined benefit plan are recognised in the income statement in the period in which the curtailment or settlement occurs.

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

Critical accounting judgements

The calculation of the defined benefit liability requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities.

In addition, management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. Details of this are given below.

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

Measurement of scheme assets and liabilities

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2016 and updated by the schemes' independent qualified actuaries to 29 September 2018. Scheme assets are stated at market value at 29 September 2018 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the scheme liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

In relation to the MABPP, the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions and the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions, has made an application to court for those various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in late 2019. The actuarial surplus as determined under IAS 19 (revised) has continued to be calculated using RPI, pending final resolution of the matter. The applicable rate of CPI at 29 September 2018 is 2.2%. Leaving all other principal financial assumptions constant, the impact of this change on the defined benefit obligation as measured under IAS 19 (revised) is estimated to be £150m. However (under IFRIC 14) an additional liability is recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023. As such should the Company be successful in contesting the application there will be no necessary movement in the total balance sheet position.

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	2018		2017	
	Main plan	Executive plan	Main plan	Executive plan
Discount rate*	2.9%	2.9%	2.7%	2.7%
Pensions increases – RPI max 5%	3.0%	3.0%	3.1%	3.1%
Inflation rate – RPI	3.2%	3.2%	3.2%	3.2%

* The discount rate is based on a yield curve for AA corporate rated bonds which are consistent with the currency and estimated term of retirement benefit liabilities.

The mortality assumptions were reviewed following the 2016 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2018		2017	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	21.2	23.9	21.2	23.8
Male member aged 45 (life expectancy at 65)	23.0	25.6	22.9	25.5
Female member aged 65 (current life expectancy)	23.6	26.0	23.6	25.9
Female member aged 45 (life expectancy at 65)	25.5	27.9	25.4	27.8

Minimum funding requirements

The results of the 2016 actuarial valuation showed a funding deficit of £451m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). The Company has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The new recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). Under IFRIC 14, an additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

The employer contributions expected to be paid during the financial period ending 28 September 2019 amount to £49m.

In 2024, an additional payment of £13m will be made into escrow, should such further funding be required at that time. This is a contingent liability and is not reflected in the pensions liability as it is not committed.

Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below.

	Increase or (decrease) in actuarial surplus		Decrease or (increase) in total pension liability	
	2018 £m	2017 £m	2018 £m	2017 £m
0.1% increase in discount rate	37	41	1	1
0.1% increase in inflation rate	(34)	(36)	(1)	(1)
Additional one-year decrease to life expectancy	72	77	1	1

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

There have been no changes in the methods and assumptions used in preparing the sensitivity analysis from prior periods.

Principal risks and assumptions

The defined benefit schemes are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – the majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts and other inflation linked assets.

Interest rate – The plans' liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the plans.

Mortality – The majority of the obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the consolidated balance sheet for the plans which in addition will also impact the pension finance charge in the consolidated income statement.

Amounts recognised in respect of defined benefit schemes

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income:

Group income statement

	2018 52 weeks £m	2017 53 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(8)	(7)
Administrative costs (defined benefit plans)	(2)	(2)
Charge to operating profit before adjusted items	(10)	(9)
Finance costs:		
Net pensions finance income/(charge) on actuarial surplus/(deficit)	5	(4)
Additional pensions finance charge due to minimum funding	(12)	(3)
Net finance charge in respect of pensions	(7)	(7)
Total charge	(17)	(16)

Group statement of comprehensive income

	2018 52 weeks £m	2017 53 weeks £m
Return on scheme assets and effects of changes in assumptions	114	337
Movement in pension liability recognised due to minimum funding	(109)	(329)
Remeasurement of pension liability	5	8

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

Group balance sheet

	2018 £m	2017 £m
Fair value of scheme assets	2,404	2,390
Present value of scheme liabilities	(2,068)	(2,219)
Actuarial surplus in the schemes	336	171
Additional liability recognised due to minimum funding	(585)	(463)
Total pension liability ^a	(249)	(292)
Associated deferred tax asset	43	50

a. The total pension liability of £249m (2017 £292m) is represented by a £49m current liability (2017 £47m) and a £200m non-current liability (2017 £245m).

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

	Scheme assets	
	2018 £m	2017 £m
Fair value of scheme assets at beginning of period	2,390	2,381
Interest income	63	53
Remeasurement gain:		
– Return on scheme assets (excluding amounts included in net finance charge)	23	3
Additional employer contributions	48	46
Benefits paid	(118)	(91)
Administration costs	(2)	(2)
At end of period	2,404	2,390

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

	Defined benefit obligation	
	2018 £m	2017 £m
Present value of defined benefit obligation at beginning of period	(2,219)	(2,587)
Interest cost	(58)	(57)
Benefits paid	118	91
Remeasurement losses:		
– Effect of changes in demographic assumptions	–	139
– Effect of changes in financial assumptions	100	164
– Effect of experience adjustments	(9)	31
At end of period ^a	(2,068)	(2,219)

a. The defined benefit obligation comprises £33m (2017 £34m) relating to the MABETUS unfunded plan and £2,035m (2017 £2,185m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 20 years (2017 20 years).

The major categories and fair values of assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2018 £m	2017 £m
Cash and equivalents	111	18
Equity instruments	626	730
Debt instruments:		
– Bonds	1,513	1,512
– Real estate debt	76	90
– Infrastructure debt	95	73
– Secured income debt	80	–
– Absolute return bond funds	202	200
– Gilt repurchase transactions	(303)	(245)
Gold	8	4
Forward foreign exchange contracts	(4)	8
Fair value of assets	2,404	2,390

The actual investment return achieved on the scheme assets over the period was 4.3% (2017 2.2%), which represented a gain of £86m (2017 £56m).

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

In the 52 weeks ended 29 September 2018 the Group paid £7m (2017 £7m) in respect of the defined contribution arrangements, with an additional £2m (2017 £1m) outstanding as at the period end.

At 29 September 2018 the MABPP owed £1m (2017 £2m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2

4.6 Share-based payments

Accounting policy

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

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

Schemes in operation

The net charge recognised for share-based payments in the period was £3m (2017 £2m).

The Group had four equity-settled share schemes (2017 four) in operation during the period; the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP).

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 68 to 91.

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

	2018		2017	
	Performance Restricted Share Plan	Sharesave Plan	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo and Binomial	Black-Scholes	Monte Carlo and Binomial	Black-Scholes
Weighted average share price	259.2p	264.2p	246.1p	231.0p
Exercise price ^a	–	246.0p	–	221.0p
Expected dividend yield ^b	–	1.97%	–	2.94%
Risk-free interest rate	0.68%	0.86%	0.34%	0.31%
Volatility ^c	32.5%	31.0%	32.0%	29.43%
Expected life (years) ^d	2.4	4.0	3.5	4.10
Weighted average fair value of grants during the period	224.2	61.3	182.4	42.8

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

b The expected dividend yield for the Sharesave Plan has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 45. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.

c The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.

d The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the Short Term Deferred Incentive Plan and the Share Incentive Plan are equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes. The fair value of options granted under the Share Incentive Plan during the period was 264.2p (2017 231.0p).

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.6 Share-based payments continued

The tables below summarise the movements in outstanding options during the period.

	Number of shares		Weighted average exercise price	
	2018 m	2017 m	2018 p	2017 p
Sharesave plan				
Outstanding at the beginning of the period	4.1	3.6	264.1	297.0
Granted	1.3	1.8	246.0	221.0
Exercised	(0.1)	(0.1)	182.2	249.0
Forfeited	(0.8)	(0.8)	257.3	296.8
Expired	(0.4)	(0.4)	323.5	302.6
Outstanding at the end of the period	4.1	4.1	256.0	264.1
Exercisable at the end of the period	–	0.5	–	291.1

The outstanding options for the SAYE scheme had an exercise price of between 221.0p and 362.0p (2017 between 182.0p and 362.0p) and the weighted average remaining contract life was 2.8 years (2017 3.0 years). The number of forfeited shares in the period includes 545,646 (2017 615,998) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 258.4p (2017 251.1p).

	Number of shares	
	2018 m	2017 m
Share Incentive Plan		
Outstanding at the beginning of the period	1.7	1.5
Granted	0.4	0.5
Exercised	(0.2)	(0.2)
Forfeited	(0.1)	(0.1)
Outstanding at the end of the period	1.8	1.7
Exercisable at the end of the period	0.8	0.8

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares	
	2018 m	2017 m
Performance Restricted Share Plan		
Outstanding at the beginning of the period	5.2	4.1
Granted	2.2	2.1
Forfeited	(0.2)	(0.1)
Expired	(1.1)	(0.9)
Outstanding at the end of the period	6.1	5.2
Exercisable at the end of the period	–	–

The exercise price for the Performance Restricted Share Plan is £1 per participating employee, therefore the weighted average exercise price for these options is £nil (2017 £nil).

Options outstanding at 29 September 2018 had an exercise price of £nil and a weighted average remaining contractual life of 3.2 years (2017 3.3 years).

4.7 Equity

Accounting policies

Own shares

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

Dividends

Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

Called up share capital

	2018 Number of shares	£m	2017 Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of 8 ¹³ / ₂₄ p each				
At start of period	422,548,604	36	413,624,294	35
Share capital issued ^a	5,762,219	1	8,924,310	1
At end of period	428,310,823	37	422,548,604	36

a Under the terms of the Company's scrip dividend scheme, shareholders are able to elect to receive ordinary shares in place of both interim and final dividends. This has resulted in the issue of 5,354,617 new fully paid ordinary shares in relation to the final dividend for the 53 weeks ended 30 September 2017 (2017 8,506,296). There was no interim dividend declared in the current period. In addition, the Company issued 407,602 (2017 418,014) shares during the period under share option schemes for a consideration of £nil (2017 £nil).

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

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

Dividends

	2018			2017		
	Cash dividend £m	Settled via scrip £m	Total dividend £m	Cash dividend £m	Settled via scrip £m	Total dividend £m
Declared and paid in the period						
Final dividend of 5.0p per share – 53 weeks ended 30 September 2017	7	14	21	–	–	–
Interim dividend of 2.5p per share – 53 weeks ended 30 September 2017	–	–	–	8	3	11
Final dividend of 5.0p per share – 52 weeks ended 24 September 2016	–	–	–	4	17	21
	7	14	21	12	20	32

The final dividend of 5.0p per ordinary share declared in relation to the 53 weeks ended 30 September 2017 was approved at the Annual General Meeting on 23 January 2018 and was paid to shareholders on 6 February 2018. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £14m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 264.4p per share, resulting in the issue of 5 million new shares, fully paid up from the share premium account. The nominal value of the 5 million shares issued in relation to the final scrip dividends is £1m.

Notes to the financial statements

Section 4 – Capital structure and financing costs continued

4.7 Equity continued

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £1m has been recognised on shares issued in the period (2017 £nil).

Capital redemption reserve

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

Revaluation reserve

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

Own shares held

Own shares held by the Group represent the shares in the Company held by the employee share trusts.

During the period, the employee share trusts acquired no shares (2017 nil) and subscribed for 296,144 (2017 353,025) shares at a cost of £nil (2017 £nil) and released 159,956 (2017 188,586) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2017 £nil). The 1,885,130 shares held by the trusts at 29 September 2018 had a market value of £5m (30 September 2017 1,748,942 shares held had a market value of £5m).

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 29 September 2018, the trustees, Equiniti Share Plan Trustees Limited, held 1,847,623 (2017 1,698,880) shares in the Company. Of these shares, 583,410 (2017 553,839) shares are unconditionally available to employees, 245,415 (2017 272,341) shares have been conditionally awarded to employees, 982,143 (2017 842,954) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 36,655 (2017 29,746) shares are unallocated.

Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 29 September 2018, the trustees, Sanne Fiduciary Services Limited, were holding 37,507 (2017 50,062) shares in the Company.

Hedging reserve

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

Translation reserve

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

Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,199m at 29 September 2018 (2017 £2,157m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

Notes to the financial statements

Section 5 – Other notes

5.1 Related party transactions

Key management personnel

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

Compensation of key management personnel of the Group:

	2018 52 weeks £m	2017 53 weeks £m
Short-term employee benefits	4	4

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration.

5.2 Subsidiaries and associates

Subsidiaries

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

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

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	United Kingdom	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	United Kingdom	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	United Kingdom	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany	Germany	Leisure retailing
Midco 1 Limited	England and Wales	United Kingdom	Property leasing company
Mitchells & Butlers (Property) Limited	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Limited	England and Wales	United Kingdom	Service company
Mitchells & Butlers Germany GmbH ^a	Germany	Germany	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Standard Commercial Property Developments Limited	England and Wales	United Kingdom	Property development
Other subsidiaries			
Mitchells & Butlers Holdings (No. 2) Limited ^a	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Leisure Holdings Limited	England and Wales	United Kingdom	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	United Kingdom	Holding company
Old Kentucky Restaurants Limited	England and Wales	United Kingdom	Trademark ownership
Bede Retail Investments Limited	England and Wales	United Kingdom	Non-trading
Lastbrew Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers (IP) Limited	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Acquisition Company	England and Wales	United Kingdom	Non-trading
Mitchells & Butlers Retail Property Limited ^a	England and Wales	United Kingdom	Non-trading
Mitchells and Butlers Healthcare Trustee Limited	England and Wales	United Kingdom	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	United Kingdom	Non-trading
Standard Commercial Property Securities Limited	England and Wales	United Kingdom	Non-trading
Temple Circus Developments Limited	England and Wales	United Kingdom	Non-trading
ALEX Gaststätten Immobiliengesellschaft mbH	Germany	Germany	Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany	Germany	Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany	Germany	Property management
ALEX Alsterpavillon Management GmbH	Germany	Germany	Management company
ALEX Gaststätten Management GmbH	Germany	Germany	Management company
PLAN-BAR Gastronomie Einrichtungen GmbH	Germany	Germany	Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (London) Limited	England and Wales	United Kingdom	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	United Kingdom	Dormant

Notes to the financial statements

Section 5 – Other notes continued

5.2 Subsidiaries and associates continued

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Browns Restaurants Limited	England and Wales	United Kingdom	Dormant
Crownhill Estates (Derriford) Limited	England and Wales	United Kingdom	Dormant
East London Pubs & Restaurants Limited	England and Wales	United Kingdom	Dormant
Mitchells & Butlers Lease Company Limited	England and Wales	United Kingdom	Dormant
Intertain (Dining) Limited	England and Wales	United Kingdom	Dormant
Lander & Cook Limited ^a	England and Wales	United Kingdom	Dormant

a Shares held directly by Mitchells & Butlers plc.

b Incorporated on 3 January 2018.

The registered office for companies operating in the United Kingdom is 27 Fleet Street, Birmingham, B3 1JP.

The registered office for companies operating in Germany is Adolfstrasse 16, 65185 Wiesbaden.

Associates

Details of the Company's associates, held indirectly, are as follows. Shares in these associates have been acquired in the period.

Name of associate	Registered office	Country of incorporation and operation	Country of operation	Nature of business	Proportion of ownership interest %	Proportion of voting power interest %
3Sixty Restaurants Limited	1st Floor St Georges House, St Georges Road, Bolton, BL1 2DD	England and Wales	United Kingdom	Leisure retailing	40	40
Fatboy Pub Company Limited	Ampney House, Falcon Close, Quedgeley, Gloucester, GL2 4LS	England and Wales	United Kingdom	Leisure retailing	25	25

5.3 Events after the balance sheet date

On 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling confirmed that there are four methods of equalising GMP that are lawful in principle, but importantly employers can direct trustees to apply 'method C' i.e. provide the better of male or female comparator pensions each year, subject to accumulated offsetting. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate.

This ruling will impact the Group's actuarial surplus/(deficit), as it will lead to an increase in pension obligations, however it should be noted that due to the recognition of an additional liability in relation to minimum funding, there will be no change to the reported pension position on the balance sheet. As the Trustee's have not previously attempted to equalise GMPs, the ruling is treated as a non-adjusting event.

Given the date of the ruling and complexity of application, it is not currently practical to estimate the impact on the actuarial surplus/(deficit) and income statement.

5.4 Five year review

	2018 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m
Revenue	2,152	2,180	2,086	2,101	1,970
Operating profit before adjusted items	303	314	318	328	313
Adjusted items	(48)	(106)	(87)	(58)	(49)
Operating profit	255	208	231	270	264
Finance costs	(119)	(125)	(126)	(130)	(132)
Finance revenue	1	1	1	1	1
Net pensions finance charge	(7)	(7)	(12)	(15)	(10)
Profit before taxation	130	77	94	126	123
Tax expense	(26)	(14)	(5)	(23)	(30)
Profit for the period	104	63	89	103	93
Earnings per share					
Basic	24.5p	15.1p	21.6p	25.0p	22.6p
Diluted	24.4p	15.0p	21.6p	24.9p	22.5p
Adjusted (Basic) ^a	34.1p	34.9p	34.9p	35.7p	32.6p

a Adjusted earnings per share is stated after removing the impact of adjusted items as explained in note 2.2

Mitchells & Butlers plc Company financial statements
Company balance sheet
 29 September 2018

	Notes	2018 £m	2017 £m
Non-current assets			
Investments in subsidiaries	5	1,474	1,474
Deferred tax asset	9	48	56
		1,522	1,530
Current assets			
Trade and other receivables	6	739	828
Cash and cash equivalents		14	1
		753	829
Current liabilities			
Pension liabilities	4	(49)	(47)
Borrowings	8	(28)	(28)
Trade and other payables	7	(288)	(419)
		(365)	(494)
Non-current liabilities			
Pension liabilities	4	(200)	(245)
Net assets		1,710	1,620
Equity			
Called up share capital	10	37	36
Share premium account		26	26
Capital redemption reserve		3	3
Own shares held		(1)	(1)
Retained earnings		1,645	1,556
Total equity		1,710	1,620

The Company reported profit for the 52 weeks ended 29 September 2018 of £89m (53 weeks ended 30 September 2017 £121m).

The financial statements were approved by the Board and authorised for issue on 21 November 2018.

They were signed on its behalf by:

Tim Jones Finance Director



The accounting policies and the notes on pages 145 to 147 form an integral part of these financial statements.

Registered Number: 04551498

Company statement of changes in equity

For the 52 weeks ended 29 September 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 24 September 2016	35	27	3	(1)	1,438	1,502
Profit after taxation	–	–	–	–	121	121
Remeasurement of pension liability	–	–	–	–	8	8
Deferred tax on remeasurement of pension liability	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	128	128
Credit in respect of employee share schemes	–	–	–	–	2	2
Dividends paid	–	–	–	–	(12)	(12)
Scrip dividend related share issue	1	(1)	–	–	–	–
At 30 September 2017	36	26	3	(1)	1,556	1,620
Profit after taxation	–	–	–	–	89	89
Remeasurement of pension liability	–	–	–	–	5	5
Deferred tax on remeasurement of pension liability	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	93	93
Share capital issued	–	1	–	–	–	1
Credit in respect of employee share schemes	–	–	–	–	3	3
Dividends paid	–	–	–	–	(7)	(7)
Scrip dividend related share issue	1	(1)	–	–	–	–
At 29 September 2018	37	26	3	(1)	1,645	1,710

The retained earnings account is wholly distributable after the deduction for own shares.

Notes to the Mitchells & Butlers plc Company financial statements

1. Basis of preparation

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

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

The financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. There have been no changes to policies during the period. The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgement of the Company is related to the selection of the discount rate and inflation rate assumptions used in the calculation of the defined benefit pension liability described in note 4.5 of the consolidated financial statements. The key critical estimates for the Company are the estimate of future cash flows and the selection of discount rate in the investment impairment review described in note 5.

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.

2. Profit and loss account

Profit and loss account

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

The Company recorded a profit after tax of £89m (2017 £121m), less dividends of £7m (2017 £12m). Dividends are disclosed in note 4.7 of the consolidated financial statements.

Audit remuneration

Auditor's remuneration for audit services to the Company was £22,000 (2017 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. Employees and Directors

	2018 52 weeks	2017 53 weeks
Average number of employees, including part-time employees	2	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits, including share-based payments, are included within the Report on Directors' remuneration on pages 68 to 91. The charge recognised for share-based payments in the period is £nil (2017 £nil).

4. Pensions

Accounting policy

The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability

At 29 September 2018 the Company's pension liability was £249m (2017 £292m). Of this amount, £49m (2017 £47m) is a current liability and £200m (2017 £245m) is a non-current liability.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 133 to 137.

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

5. Investments in subsidiaries**Accounting policy**

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

Critical accounting estimates

The application of the impairment methodology requires two critical accounting estimates; the forecast of cash flows and the selection of an appropriate discount rate. A sensitivity analysis of changes in cash flows and the discount rate in relation to the investments to which these estimates apply, is provided below.

	Shares in subsidiary undertakings £m
Cost	
At 24 September 2016	3,104
Exchange differences	1
Additions ^a	248
At 30 September 2017	3,353
Exchange differences	–
At 29 September 2018	3,353
Provision	
At 24 September 2016	1,879
Impairment	–
At 30 September 2017	1,879
Impairment	–
At 29 September 2018	1,879
Net book value	
At 29 September 2018	1,474
At 30 September 2017	1,474
At 24 September 2016	1,225

a Additions in the prior period of £248m relate to a capital contribution, in the form of a loan waiver, provided to a subsidiary company within the Mitchells & Butlers plc Group. The intercompany loan was tested for impairment prior to the loan waiver, with no impairment required.

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. In addition, the Company has indirect investments in associate companies through subsidiary undertakings. See note 5.2 of the consolidated financial statements for a full list of subsidiaries and associates.

Investments have been tested for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7.7% (2017 7.5%). For the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2017 0.0%) of growth per annum.

Sensitivity analysis

The Company has performed a sensitivity analysis on the impairment tests for its investments in subsidiaries using various reasonably possible scenarios. It is estimated that neither a 0.5% increase in the discount rate nor a 5% reduction in future cash flows would generate an impairment charge.

6. Trade and other receivables

	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	739	828

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

7. Trade and other payables

	2018 £m	2017 £m
Amounts owed to subsidiary undertakings ^a	283	416
Accrued charges	4	–
Other payables	1	3
	288	419

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

8. Borrowings

Accounting policy

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

Borrowings can be analysed as follows:

	2018 £m	2017 £m
Current		
Bank overdraft	28	28
Total borrowings	28	28

Unsecured revolving credit facility

The Company holds uncommitted credit facilities of £15m. The amount drawn at 29 September 2018 is £nil (2017 £nil).

9. Taxation

Accounting policy

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

Deferred tax asset

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

	£m
At 24 September 2016	66
Charged to income statement – pensions	(6)
Charged to income statement – tax losses	(3)
Charged to other comprehensive income – pensions	(1)
At 30 September 2017	56
Charged to income statement – pensions	(6)
Charged to income statement – tax losses	(1)
Charged to other comprehensive income – pensions	(1)
At 29 September 2018	48

Analysed as tax timing differences related to:

	2018 £m	2017 £m
Pensions	43	50
Tax losses ^a	5	6
	48	56

a Tax losses arising in 2008 which are now recoverable by offset against other income.

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

10. Equity

Called up share capital

Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

Dividends

Details of the dividends declared and paid by the Company are contained in note 4.7 to the consolidated financial statements.

Alternative performance measures

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 2.2.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans.

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
EBITDA before adjusted items	EBITDA before separately disclosed items.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal.	Group income statement
Adjusted earnings per share (EPS)	Earnings per share using profit before separately disclosed items.	Note 2.5
Net debt: Adjusted EBITDA	The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 4.1 Group income statement
Free cash flow	Calculated as net movement in cash and cash equivalents before the movement on unsecured revolving credit facilities.	Cash flow statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

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. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

	Source	2018 52 weeks £m	2017 53 weeks £m	Year-on-year %
Reported revenue	Income statement	2,152	2,180	(1.3)
Adjust for 53rd week	See APM G	–	(39)	
Less non like-for-like sales		(187)	(202)	
Like-for-like sales		1,965	1,939	1.3

Drink and food sales growth FY 2018

	Source	2018 52 weeks £m	2017 52 weeks £m	Year-on-year %
Drink like-for-like sales		917	894	2.6
Food like-for-like sales		999	996	0.3
Other like-for-like sales		49	49	–
Total like-for-like sales		1,965	1,939	1.3

	Source	2019 7 weeks £m	2018 7 weeks £m	Year-on-year %
Revenue		276.7	268.5	3.1
Less non like-for-like sales		(26.5)	(23.7)	
Like-for-like sales		250.2	244.8	2.2

B. Adjusted operating profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence (see note 2.2). Excluding these items allows a better understanding of the trading of the Group.

	Source	2018 52 weeks £m	2017 53 weeks £m	Year-on-year %
Operating profit	Income statement	255	208	22.6
Add back separately disclosed items	Note 2.2	48	106	
Adjustment for 53rd week	See APM G	–	(6)	
Adjusted operating profit		303	308	(1.6)
Reported revenue 52 weeks	See APM G	2,152	2,141	0.5
Adjusted operating margin		14.1%	14.4%	(0.3)ppts

C. Adjusted earnings per share

Earnings per share using profit before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

	Source	2018 52 weeks £m	2017 53 weeks £m	Year-on-year %
Profit for the period	Income statement	104	63	65.1
Add back separately disclosed items	Income statement	41	83	
Adjustment for 53rd week	See APM G	–	(2)	
Adjusted profit		145	144	0.7
Weighted average number of shares	Note 2.5	425	418	
Adjusted earnings per share		34.1p	34.4p	(0.9)

D. Net debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

	Source	2018 52 weeks £m	2017 53 weeks £m
Net debt	Note 4.1	1,688	1,750
EBITDA	Income statement	417	395
Less separately disclosed items	Income statement	5	34
Adjusted for 53rd week	See APM G	–	(8)
Adjusted 52 week EBITDA		422	421
Net debt: Adjusted EBITDA		4.0	4.2

E. Free cash flow

Free cash flow excludes the cash movement on unsecured revolving credit facilities and is presented to allow understanding of the cash movements excluding short-term debt.

	Source	2018 52 weeks £m	2017 53 weeks £m
Net decrease in cash and cash equivalents	Cash flow statement	(25)	(11)
Net movement on unsecured revolving credit facilities	Cash flow statement	6	25
		(19)	14

F. Second half adjusted operating profit

	Source	2018 52 weeks £m	2017 52 weeks £m	Year-on-year %
First half adjusted operating profit	Interim statement	141	149	(5.4)
Second half adjusted operating profit		162	159	1.9
Adjusted operating profit		303	308	(1.6)

Alternative performance measures continued

G. FY 2017 52 week reconciliation

FY 2017 was a 53 week period and therefore presentation of a 52 week basis provides better comparability.

	Source	2017 52 weeks	2017 Week 53	2017 53 weeks
Revenue	Income statement	£2,141m	£39m	£2,180m
EBITDA	Income statement	£387m	£8m	£395m
Adjusted operating profit	Income statement	£308m	£6m	£314m
Adjusted PBT	Income statement	£180m	£3m	£183m
Profit for the period	Income statement	£61m	£2m	£63m
Adjusted EPS	Income statement	34.4p	0.5p	34.9p
Net finance costs	Income statement	£128m	£3m	£131m

H. Return on capital

Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement of return commences three periods following the opening of the site.

Return on expansionary capital

	Source	2017 FY 2014-17 £m	2018 FY 2015-17 £m	2018 FY 2018 £m	2018 Total £m
Maintenance and infrastructure		333	216	70	286
Remodel – refurbishment		130	107	63	170
Non-expansionary capital		463	323	133	456
Remodel expansionary		27	27	7	34
Conversions and acquisitions*		158	139	27	166
Expansionary capital for return calculation		185	166	34	200
Expansionary capital open < 3 periods pre year end		12	9	4	13
<i>Total capital</i>	<i>Cash flow</i>	660	498	171	669
Adjusted EBITDA	Income statement	1,714	1,292	422	1,714
Non-incremental EBITDA		(1,680)	(1,268)	(414)	(1,682)
Incremental EBITDA		34	24	8	32
Return on expansionary capital		18%	14%	23%	16%

* Conversion and acquisition capital is net of capex incurred for projects which have been open for less than three periods pre year end

Return on remodel capital

	Source	FY 2018 £m
Capital investment	Cash flow	171
Non-remodel capital investment		(108)
Remodel capital investment		63
Adjusted EBITDA	Income statement	422
Non-incremental EBITDA		(405)
Incremental EBITDA		17
ROI		27%

Shareholder information

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<http://www.mbplc.com/investors/contacts/>

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays
in England & Wales

Key dates

These dates are indicative only and may be subject to change. For the current status visit
the financial calendar on our website at www.mbplc.com/investors

Annual General Meeting	22 January 2019
Announcement of interim results	May 2019
Pre-close trading update	September 2019
2019 final results announcement	November 2019

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

Alex

www.dein-alex.de

All Bar One

www.allbarone.co.uk
@allbarone

Browns

www.browns-restaurants.co.uk
@BrownsBrasserie

Castle

www.mbplc.com/findapub

Ember Inns

www.emberinns.co.uk
@EmberInns

Harvester

www.harvester.co.uk
@HarvesterUK

Innkeeper's Lodge

www.innkeeperslodge.com
@InnkeepersLodge

Miller & Carter

www.millerandcarter.co.uk
@MillerandCarter

Nicholson's

www.nicholsonspubs.co.uk
@Nicholsonspubs

O'Neill's

www.oneills.co.uk
@ONeillsPubs

Premium Country Pubs

www.mbplc.com/findapub

Sizzling Pubs

www.sizzlingpubs.co.uk
@SizzlingPubs

Stonehouse Pizza & Carvery

www.stonehouserestaurants.co.uk
@stonehousepizza

Toby Carvery

www.tobycarvery.co.uk
@tobycarvery

Vintage Inns

www.vintageinn.co.uk
@Vintage_Inns

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

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

To find out more go to www.mbplc.com



Design and production: Gather
Printed by: CPI Colour

The paper used in this Report is
derived from sustainable sources

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CarbonNeutral® printing company



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