Annual Report and Accounts
2013

Brands people love

Mitchells & Butlers

Brands people love

Contents

We're the largest operator of managed restaurants, pubs and bars in the UK, providing a wide choice of eating and drinking-out experiences through our well known brands and delivering great service, quality and value for money to our guests.

Reasons to invest:

- Strong business foundations
- Transformation programme on track
- Substantial expansion opportunities
- Clear operational priorities

We are well positioned to deliver sustainable growth.

Go online: www.mbplc.com

What you'll find:
Investor relations
Corporate responsibility

2013 Financial Highlights

Revenue

£1,895m +2.2%

Adjusted operating profit*

£312m +5.1%

Adjusted earnings per share*

34.9p +17.1%

* Adjusted figures refer to results before exceptional items and other adjustments as noted in the Group Income Statement. Growth rates are against a comparable 52 week Income Statement in FY 2012.

Chairman's statement

This has been a year of good progress within your business. We have strengthened the Board with three independent Non-Executive Directors, continued to make the changes necessary to transform the business from good to great, and delivered a 17% increase in adjusted earnings per share*. Whilst a number of challenges remain, we can look to the future with confidence.

The value creation journey

Right size

In FY 2012 we restructured our Retail Support Centre to reduce bureaucracy, speed up decision making and start the cultural change journey.

Balanced transformation

We are now reshaping the business so that we can consistently deliver great service to our guests to drive repeat visits and recommendation, while delivering good financial results.

This time last year, I wrote that my key focus for 2013 would be to enhance the balance, skills and compliance of the Board through the selection of appropriately qualified independent Non-Executive Directors. I am delighted therefore that during the last year we have appointed three Board Directors of exceptional capability.

Imelda Walsh has brought excellent people management and retailing skills to the Board and is therefore an ideal person to fill the role of our Remuneration Committee Chair. She has held senior executive roles at J Sainsbury plc, where she was Group HR Director from 2004 to 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. She is a Non-Executive Director and Remuneration Committee Chair of both William Hill plc and Mothercare plc.

Colin Rutherford's corporate finance and accountancy skills are already proving highly valuable to the Board, particularly in his role as our Audit Committee Chair. He was Executive Chairman of MAM Funds plc, a quoted fund management business from 2009 to 2011, is a member of the Institute of Chartered Accountants of Scotland and has relevant experience in various public and private companies in the leisure and hospitality industries. He is currently Chairman of Brookgate Limited, European Care Group Limited and Teachers Media International Limited.

Stewart Gilliland's senior management experience predominantly in the brewing sector is highly relevant to many of the challenges that our business faces. He 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 a Non-Executive Director of Booker Group plc, Sutton and East Surrey Water Co, Tulip Group Limited, Nature's Way Foods Limited, C&C Group and Vianet Plc.

Since I was appointed Executive Chairman in October 2011, we have made significant improvements to our corporate governance. Over the past two years, the Board has recruited a strong leader in Alistair Darby and has strengthened the Board through the appointments of Eddie Irwin, Imelda, Colin and Stewart as Non-Executive Directors. In July, we finalised the membership of our Remuneration, Audit and Nomination Committees and have updated their terms of reference, which are now in line with current best practice. My focus will continue to be on further improvements in this area. An example is this Annual Report itself, which we have attempted to make more useful and understandable for our shareholders. Among other improvements, we have included a new remuneration report, provided more information on our market and our brands, extended our key performance indicators and included many of the new requirements of the revised UK Corporate Governance Code, a year earlier than required. I hope these changes prove helpful.

The Company is in discussions with the Trustee of the group pension schemes regarding the triennial actuarial valuation which is dated as at 31 March 2013, in order to agree the funding shortfall and schedule of contributions. We hope to conclude these discussions as quickly as possible whilst balancing the interests of all stakeholders.

Lastly, I would like to praise the efforts of our 40,000 employees. Our vision is that our guests love to eat and drink with us, and we are indebted to all of our people, from our restaurants, pubs and Retail Support Centre in Birmingham, as we work towards this.

We are now in the balanced transformation stage of our value creation journey. Over the last 12 months we have bedded in the organisational changes announced last year and refined our brand strategies in light of changing consumer and market dynamics. All this has been achieved whilst still growing sales, improving operating margin and growing adjusted EPS by 17%*. There remains a lot to do, but the progress we have already made gives me great confidence in the future.

Bob Ivell
Chairman

Accelerating forward

As this transformation gains traction, the performance of the business will start to accelerate as we achieve our vision that guests love to eat and drink with us.

* Adjusted EPS is stated before exceptional items and other adjustments. Growth against last year is compared to the 52 week adjusted EPS as detailed in the Financial Review.

For further information go to the Chief Executive's Market and Business Review on pages 22 to 27.

Mitchells & Butlers at a glance

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

Number of sites
210

Toby Carvery
The home of the roast! Toby Carvery is located in suburban pub settings across the UK, serving four freshly prepared carved meats and abundant fresh vegetables every day of the week.

Number of sites
154

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

Number of sites
130

Castle
A collection of unique pubs with individual personalities located in some of the best urban residential areas in and out of London, serving the best draught beer and great pub food.

Number of sites
97

Nicholson's
A historic collection of iconic city pubs of distinction offering a warm welcome and the very best in British real ales and classic pub food.

Number of sites
77

O'Neill's
Pubs where you can savour Irish food, drink and hospitality with friends, listen to live music or enjoy the latest sport events.

Number of sites
49

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All Bar One
A collection of female-friendly city centre bars focused on wine, cocktails and sharing food.

Number of sites
47

Alex
One of Germany's leading bar and brasserie brands offering classic meals, salads and healthy snacks.

Number of sites
40

Miller & Carter
You will not experience a better steak than that at Miller & Carter. Our award winning steak is served with pride across the UK.

Number of sites
29

Browns
Since opening our first Browns in 1973, we've been providing delicious brasserie-style food, excellent wines and classic cocktails in beautiful surroundings with superb service. The brand celebrated its 40th anniversary this year.

Number of sites
27

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

Number of sites
415

Country Pubs
We are proud to manage over 300 of the best country pubs in the UK, all offering modern pub food and outstanding drinks served with care and character by our teams. A place to get away from the concerns of the everyday, and relax in company and comfort.

Number of sites
314

We serve around 130m meals each year

130m

And serve around 410m drinks each year

410m

Our vision is that guests love to eat and drink with us.

So how do we achieve this?

First, we looked at our markets, our guests and our brands...

Our markets and customers

We operate in the UK eating and drinking-out market. This is a large, fragmented market, worth £75bn. We are one of the largest players with only 3% of market revenues and there is a significant opportunity to grow our share.

Total market value
£75bn

Source: Allegra Project Restaurant 2013, ONS Household Final Consumption Expenditure 2011.

The eating and drinking-out market

Food remains the primary long term route to sustainable growth in this sector. Three quarters of our sales are food-related.

Fig. 1 – % of UK consumer spending*

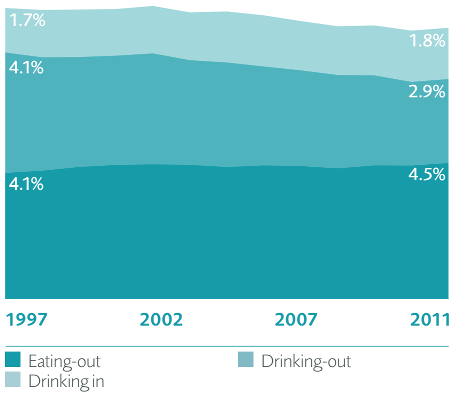
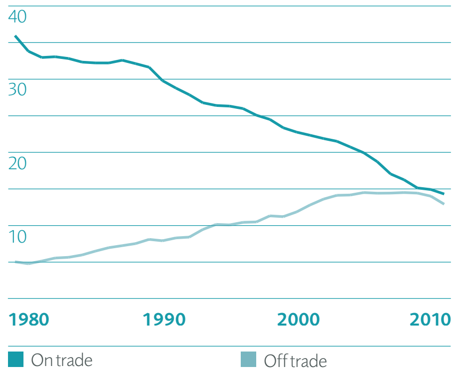


Fig. 2 – UK beer market volumes (million barrels)**



* Source: ONS Household Final Consumption Expenditure 2011.
** Source: The British Beer and Pub Association.

Branded growing faster than unbranded

The branded restaurant and pub sector has grown, and is forecast to grow, at a faster rate than the unbranded sector. See Fig. 3

Eating-out has been protected

In the downturn, families have protected low ticket leisure spending. See Fig. 4

Fig. 3 – UK market size*

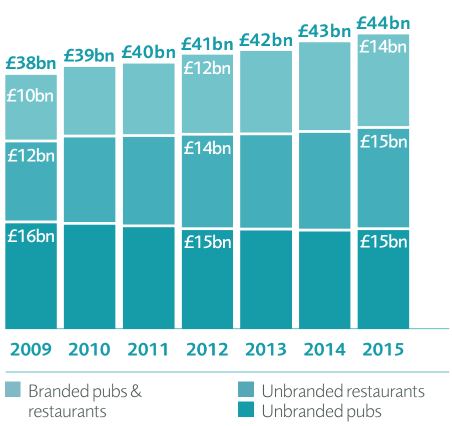
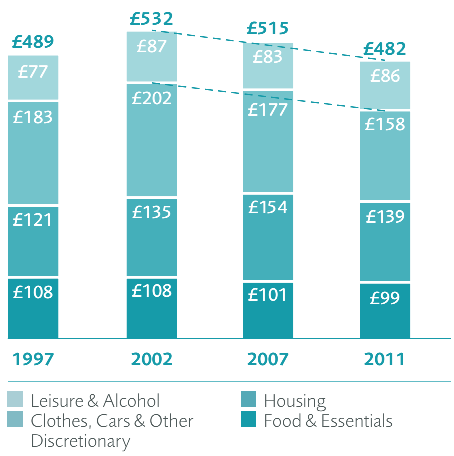


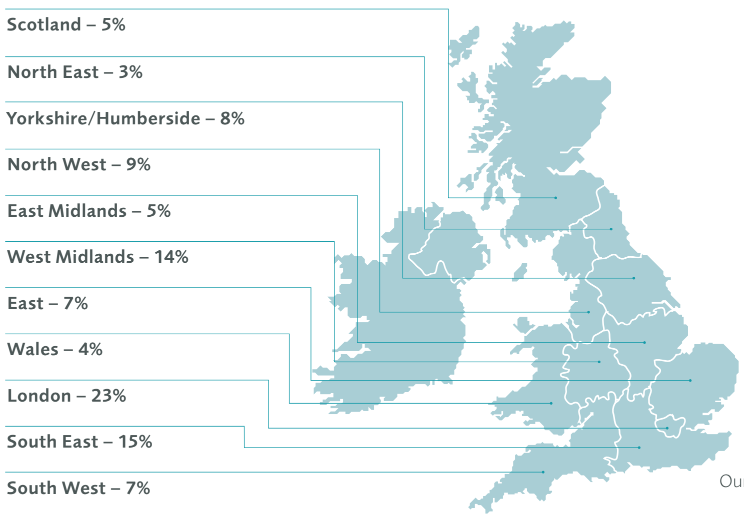
Fig. 4 – £ Average household weekly expenditure**



* Source: Allegra Project Restaurant 2012.
** Source: ONS family spending survey 2012.

Revenue by region

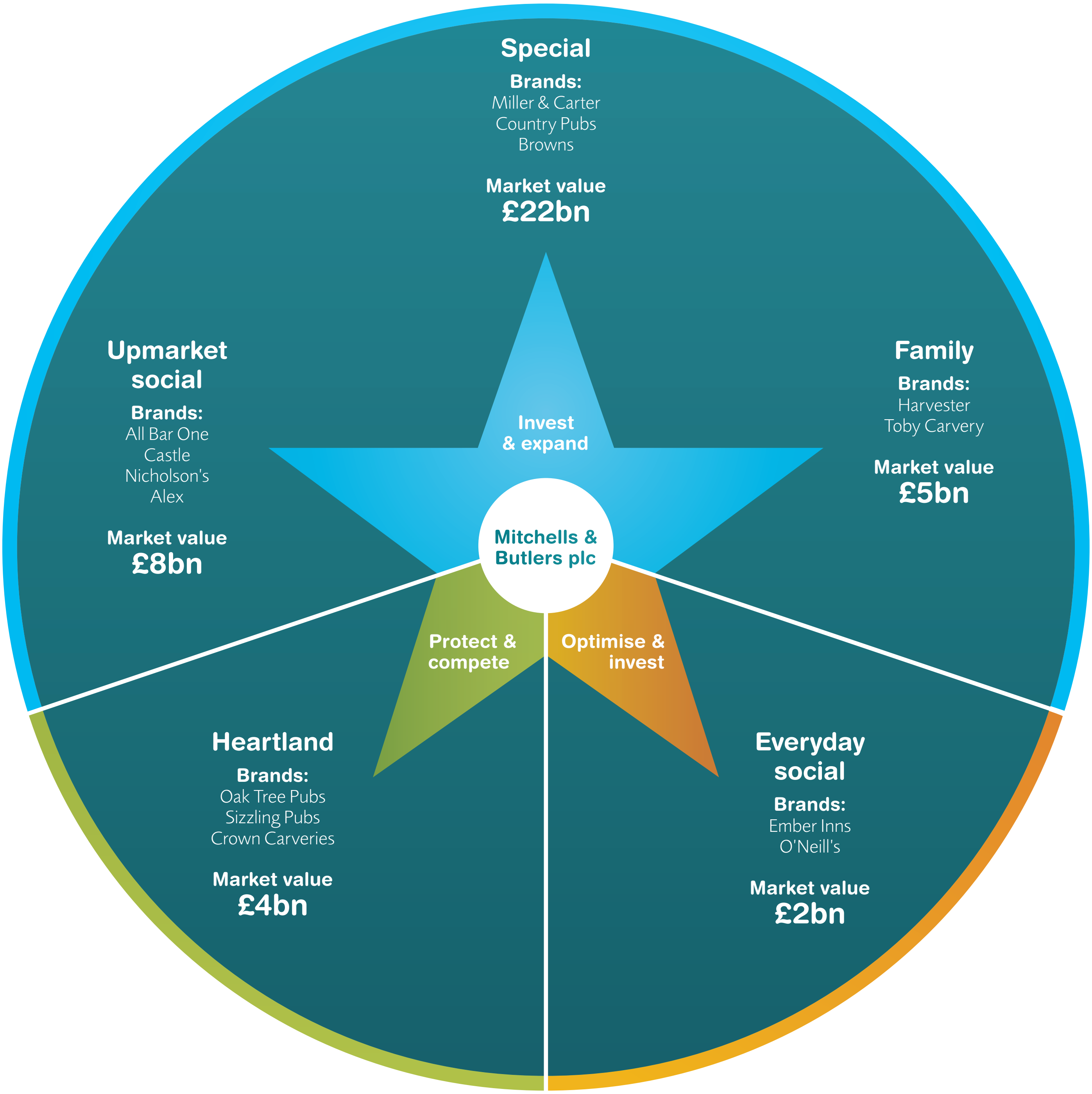
London, the East and the South East have achieved substantially more growth in the downturn than the rest of the country and this trend is forecast to continue. 45% of our revenues are generated in these regions.



Our sales by region

...and identified where there are opportunities for us to grow our business.

Our opportunities



We believe that there are areas of substantial opportunity to grow in our highly fragmented market, worth £75bn in the UK. We have identified five market spaces in which to focus, covering around half the total market size. We have three broad operating and expansion strategies to maximise our returns in each of these spaces.

Invest & expand: Toby Carvery

Number of outlets

154

Founded in

1973

Number of employees

5,000

Invest & expand:
Miller & Carter

Number of outlets
29

Founded in
2006

Number of employees
1,000

Optimise & invest: Ember Inns

Number of outlets
130

Founded in
1999

Number of employees
2,000

Protect & compete: Sizzling Pubs

Number of outlets

220

Founded in

2001

Number of employees

3,500

To help us maximise these opportunities, we apply a simple business model and clear strategy to deliver sustainable growth for shareholders.

Our business model and strategy

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

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

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

Our strategy

1. Focus the business on the most attractive market spaces within eating and drinking-out	2. Develop superior brand propositions with high levels of consumer relevance	3. Recruit, retain and develop engaged people who deliver excellent service for our guests	4. Generate high returns on investment through scale advantage	5. Maintain a sound financial base

2013 progress (See Chief Executive's market and business review on pages 22 to 27)

1.	2.	3.	4.	5.
• We completed a significant piece of research to update our understanding of current and future consumer trends, opportunities and brand growth potential. • This research included interviews with 8,000 consumers, meetings with industry commentators and a thorough review of macro-economic indicators and forecasts.	• We aligned our operating strategies to the market dynamics within each space. • We delivered further growth in food sales and margin in a challenging environment.	• Our 'Good to Great' programme continued to reduce the level of administration within the business, freeing up our operational teams to deliver improved service. • We redesigned our guest service and food capability training programmes. • We actively support apprenticeship schemes and, at our year end, we were employing c. 1,600 apprentices.	• We have continued to refine our methods of site selection, making use of our improved consumer insight. • We opened 16 new restaurants and pubs in the year.	• We have long-term debt financing secured on our large, predominantly freehold asset base. • At the year end, our freehold property was revalued and we conducted an impairment review on other assets. Taken together, this resulted in an increase in value of £31m.

2013 performance

1.	2.	3.	4.	5.
• We focused the business on five attractive market spaces within the £75bn eating and drinking-out market: special, family, upmarket social, everyday social and heartland.	• Total sales increased 2.2% (compared to 52 week revenue in FY 2012). • Our net promoter score increased by 4 percentage points to 59%.	• Staff turnover in our restaurants and pubs was down 4 percentage points to 78%.	• We made a 17% EBITDA return on the expansionary investments made in our brand portfolio over the last three years.	• Net debt reduced to 4.2 times EBITDA from 4.5 times at the last year end.

2014 priorities

1.	2.	3.	4.	5.
• We will open new restaurants and pubs, especially in the family, upmarket social and special market spaces.	• We will focus on the execution of our brand strategies, based on strong consumer insight. • We will roll out new tills, table and kitchen management systems across our estate, which are designed to improve guest service significantly.	• We have launched a People Strategy which aims to improve further our recruitment, induction, guest service and food capability programmes across our restaurants and pubs.	• We will continue our focus on improving the efficiency of our investments. • We will further increase the clarity of our capital allocation, investing where the returns are most attractive.	• We will continue to prioritise long-term financial stability for the Group.

Key risks (See Risks and uncertainties on pages 18 to 20)

1.	2.	3.	4.	5.
• Failure to anticipate pricing and market changes. • Failure to anticipate changes in consumer taste.	• Failure to anticipate pricing and market changes. • Failure to anticipate changes in consumer taste.	• Failure to attract, retain, develop and motivate the best people with the right capabilities.	• Cost of goods price increases (including energy). • Failure to attract high quality teams to operate newly opened restaurants and pubs.	• The pension fund deficit may increase, leading to increases in funding requirements. • Failure to manage performance against our borrowing covenants.

Risks and uncertainties

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

The Risk Committee met on four occasions in FY 2013 and continues to meet on a quarterly basis to review the key risks facing the business. Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact, within the Group's 'Key Risk Heat Map,' in conjunction with associated risk mitigation plans. The processes that are used to identify and manage risks are described in the Internal Control and Risk Management statement on pages 45 and 46.

Actively managing potential risks

Market risks	Risk description	Mitigating activities
Consumer taste and brand management	Social and demographic changes are driving the long-term growth in eating-out while at the same time leading to a steady decline in the sales of on-trade drinks without food. These changes, together with other developments in consumer taste may reduce the appeal of Mitchells & Butlers' brands to its customers, especially if the Company fails to anticipate and identify these changes and respond to them adequately and promptly.	In FY 2013, the Company conducted a major piece of consumer research, interviewing 8,000 consumers about 14,000 leisure occasions. This research examined macro economic trends, consumer dynamics, competitor and internal brand positioning and the Company's strengths and weaknesses. The business is in the process of rolling out the outputs from this project to refine further its brand positioning and ensure the portfolio's continued relevance for guests. This is discussed in detail in the Business Review on pages 22 to 27. The Company uses an online guest satisfaction survey to collect customer feedback. This feedback together with the results of research studies is monitored and evaluated by a dedicated customer insight team to ensure that the relevance to customers of the Company's brands is maintained. Net promoter score is the key measure of success in this area, and this has improved from 55% in FY 2012 to 59% in FY 2013.
Pricing and market changes	External influences, such as changes in the general economic climate or competitor activity, could have a detrimental effect on customers' spending patterns and therefore the Company's revenue, profitability and consequently the value of its assets.	Mitchells & Butlers' business is focused on the long-term potential of the eating-out market. The Company owns sites across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range allows the Company to respond to changes in consumer expenditure either by flexing our offerings or by substituting a different brand at a particular location. This activity is supported by dedicated Sales and Margin Managers and Asset Planning teams which analyse and evaluate a range of information including that in respect of competitors.

Operational risks	Risk description	Mitigating activities
Cost of goods price increases (including energy price increases)	Increases in the price of goods for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base consequently impacting margins.	Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry on the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. The Company continually evolves the composition of menus and retail prices in order to optimise value to the customer as well as profits for the Company. The energy procurement strategy seeks to reduce the risk of cost increases and uncertainty over energy prices by a rolling programme of short and medium-term purchases against forecast requirements. A dedicated energy management team is responsible for optimising energy usage across the organisation by promoting energy efficient working practices via training and educational programmes and by the installation of energy efficient equipment.

Risks and uncertainties
continued

Operational risks	Risk description	Mitigating activities
People planning and development	Mitchells & Butlers' business has a strong customer focus, and as such it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation.	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 compare it with other companies as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning. Staff turnover is the key measure of success in this area, and this has improved from 82% in FY 2012 to 78% in FY 2013.
Business continuity and crisis management	Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its customers efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.	The Company has in place crisis and continuity plans that are tested and refreshed regularly.

Finance risks	Risk description	Mitigating activities
Borrowing covenants	There are risks that borrowing covenants are breached because of circumstances such as: i) a change in the economic climate leading to reduced cash inflows; or ii) a material change in the valuation of the property portfolio.	The Company maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the roles of which include ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board. In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee.
Pension fund deficit	There is a risk that the pension fund deficit increases because of poor investment performance, lower long-term bond yields or increased life expectancy, leading to unexpected increases in funding requirements on the Company. The triennial actuarial valuation carried out at 31 March 2010 resulted in a deficit of £400m. The 2013 valuation is currently ongoing.	Mitchells & Butlers maintains a close dialogue with the Trustees of the pension schemes and three of the 12 Trustees are appointed by the Company. The Company has made significant additional contributions to reduce the funding deficit.

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

Key performance indicators

We measure our performance and progress against our strategy through five key performance indicators. This year, we have included two additional non-financial KPIs, relating to our ability to retain our employees and to the extent that our guests would recommend our businesses to their friends and family. These KPIs are reviewed at every Executive Committee meeting and are central to our understanding of our performance.

Our performance in the year was as follows:

KPI	KPI definitions	Progress in FY 2013
1. Staff turnover	The number of leavers in our retail businesses, expressed as a percentage of average retail employees. This measure excludes site management as well as employees who leave and rejoin the business within the same year.	The eating and drinking-out industry has traditionally had a high level of staff turnover. We believe that reducing staff turnover will improve guest service and drive profitability. Following significant management focus, staff turnover has reduced from 82% in FY 2012 to 78% in FY 2013.
2. Net promoter score	The net promoter score for a pub is defined as the percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 out of 10 ('brand detractors'). Responses scoring 7 or 8 ('passives') are ignored in the calculation.	Net promoter score has increased from 55% in FY 2012 to 59% in FY 2013, indicating a higher level of guest recommendation of our businesses.
3. Same outlet like-for-like sales growth	The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage.	Our like-for-like sales increased 0.4% in FY 2013, lower than the increase of 2.1% in FY 2012.
4. Incremental return on expansionary capital	Expansionary capital includes investments made in new sites and investment in existing assets that increases the trading area or materially changes the customer offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital.	The performance in this area remains above our cost of capital. Blended freehold and leasehold pre-tax EBITDA returns of 17% are being achieved on investments made since FY 2011, in line with last year.
5. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	52 week adjusted operating profit and adjusted EPS were up 5.1% and 17.1% respectively as a result of sales growth, higher operating margins and lower interest charges (FY 2012: adjusted operating profit up 1.0% and adjusted EPS up 6.4%).

As a key measure of overall profitability and shareholder value creation, EPS growth forms a key part of the Group's remuneration policies for Directors and other employees. Full details of the various schemes in operation are shown on pages 50 to 64 in the Report on Directors' remuneration.

Chief Executive's market and business review

We are the UK's largest operator of managed restaurants and pubs, with a high quality freehold estate, some of the best known brands in the industry, substantial scale and committed retail teams.

This year, we have delivered a strong set of financial results, with sales and margin growth, adjusted EPS up 17% and debt continuing to fall. At the same time we have made good progress with our business transformation programme which is on track and aimed at focusing the business on four key priority areas: our people, our practices, our guests and our profits. We are confident this will help to drive our future growth and our ability to create additional shareholder value.

Market review

2013 has not been an easy year for UK consumers. With wage rises not keeping pace with the general level of inflation in the economy, discretionary income has remained tight. This economic backdrop continues to drive a challenging consumer environment and ever greater expectations when people do choose to spend their money. It is in this context that we are especially pleased with our financial progress this year. A number of factors are impacting our market's evolution and we believe will continue to do so:

- **The market is large but fragmented.** The eating and drinking-out market is worth £75bn a year and we are one of the largest players in that market with sales of around £2bn, approximately 3% of the total. Our largest brand by sales, Harvester, has just 210 outlets in the UK compared to around 125,000 eating and drinking-out venues in total. The opportunity for scale operators to grow by taking market share with leading brands is significant in a market of this size.
- **The importance of brands is increasing.** Although the majority of the industry is unbranded, the branded restaurant and pub sector has consistently grown at a faster rate than the unbranded sector and this has accelerated in the downturn as guests seek the guarantee of quality that a brand can offer. We expect that this trend will continue.
- **Leisure spending has been protected.** Through the downturn, families have tended to protect low ticket leisure spending. Average weekly family spending on leisure increased 4% from 2007 to 2011, whereas overall weekly family expenditure was down 6% over the same time (source: ONS family spending survey 2012).
- **Food remains the primary long-term route to sustainable growth in this sector.** We benefit from being principally focused on eating-out, with around three quarters of our turnover generated from guests eating in our restaurants and pubs. We expect the eating-out market to grow at least in line with overall consumer spending in future. Even in the structurally declining drinking-out market, brands and formats with strong locations, a clear brand proposition and customer focus should outperform.
- **There are significant economic disparities by region and by economic grouping.** Between 2006 and 2012, London, the East and the South East achieved substantially higher economic growth than the rest of the country and this trend is forecast to continue. 45% of our revenues are generated in these areas and we are well placed to benefit from this improving trend. Different economic groups have also been impacted to varying degrees by the economic slowdown and subsequent austerity measures. Baby boomers and more affluent economic groups have been relatively well protected whereas 18 to 34 year olds and the lower income deciles have been the hardest hit. Our brand portfolio is targeted at guests from across a wide spectrum, so it is increasingly important that we focus the business to benefit from these dynamics. We have invested heavily in this area in FY 2013 and our brand teams are now highly focused on the specific market trends which impact their guests.

Our priorities in action

59%

Our measure of guest recommendation, net promoter score, was up 4 percentage points to 59%

Chief Executive's market and business review continued

£75bn

The eating and drinking-out market is worth £75bn a year

4%

Average weekly family spending on leisure increased 4% from 2007 to 2011

45%

45% of our revenues are generated in London, the East and the South East

Brand positioning, operating strategies and expansion opportunities
We operate a wide range of scale brands and formats which offer food and drink across a broad spectrum of price points and occasions, from a casual meeting with friends to special occasion dining. We have identified five 'market spaces' through our extensive consumer research on which to focus: upmarket social, special, family, everyday social and heartland*. These spaces cover about half of the £75bn eating and drinking-out market and are impacted by a wide range of market dynamics. We are increasing the efficiency of our capital allocation and maximising our returns on investment through three broad operating and expansion strategies.

Invest & expand: The upmarket social, special and family spaces, together worth £35bn, currently benefit from the most attractive market trends and our businesses in these areas were the strongest performers in FY 2013. We have strong brands in these segments and we expect them to deliver good organic sales and profit growth in the future. In addition, we will be expanding our footprint in these areas and are currently focusing on Harvester, Toby Carvery, Miller & Carter and All Bar One, where we can deliver attractive returns on investment. We opened 13 new sites in these brands over the financial year. We will also expand our other businesses in these market spaces on an opportunistic basis and we opened one Browns and two Alex sites in the year. We expect the rate of new openings to accelerate in this segment over the medium term towards 50 each year.

Optimise & invest: The everyday social space, currently worth £2bn, is a market focused on drinking and eating-out in relaxed, comfortable, community pubs. We expect to grow in this area through optimising the sites we already have rather than expanding site numbers. To this end, we have reallocated a proportion of our maintenance capital to improve amenity levels in certain brands and ensure the brand positioning is suitable for their target customers. As an example, we are planning to invest in Ember Inns over the next two years, with a clear focus on driving both drink and food volumes in warm and welcoming suburban pubs, firmly embedded in their local communities.

Protect & compete: The heartland space, worth £4bn, is a market characterised by the need to offer value to consumers who have been most exposed to the economic downturn. The effects of the recession and austerity have hit this consumer group more than other segments and the market dynamics are the most difficult of the market spaces in which we operate. Our strategy is based around local flexibility and working hard to deliver exceptional value for our guests while generating cash. New menus in Sizzling Pubs and Oak Tree Pubs resulted in an improved volume performance in the second half of the year. We have extended our sports coverage with both Sky Sports and BT Sport and we are focusing on improved staff recruitment and induction. As a further example of this strategy, we recently launched new autumn menus in Crown Carveries which featured great value main courses at £3.69, compared to the main carvery price of £4.19. These products satisfy a guest need for great value, traditional meals at a price point less than £4, whilst protecting our cash margins per dish. We have also restructured our operations in this area, with a more efficient structure now in place to reduce travel time for regional management.

Business transformation programme
In the half year results, we discussed how we are transforming the business to deliver long-term growth in shareholder value by addressing some core questions: how we attract, develop and retain outstanding and engaged people; how we operate scale brands and formats effectively; and how we consistently delight our guests and therefore achieve market leadership.

2013 is the first full year of the transformation programme. In FY 2012, we successfully restructured our central functions and modernised our core IT infrastructure, delivering annual savings of £10m. This year, we have been building on these foundations and undertaking a more wide ranging change programme, aimed at focusing the business on four priority areas: our people, our practices, our guests and our profits. We are pleased that we have been able to grow sales, margins and EPS whilst making progress in each of our priority areas.

* The list of brands within each market space is as follows. Upmarket social includes All Bar One, Castle, Nicholson's and Alex. Special includes Miller & Carter, Country Pubs and Browns. Family includes Harvester and Toby Carvery. Everyday social includes Ember Inns and O'Neill's. Heartland includes Crown Carveries, Oak Tree Pubs and Sizzling Pubs. See the Half Year Results 2013 for further discussion of these spaces.

Our priorities in action

25.4%

Employment costs broadly maintained at 25.4% of sales while improving service, especially at peak times

Our priorities in action

78%

Staff turnover has decreased from 82% to 78%

Our people: We consider the key measure of success in relation to our people to be staff turnover, which has decreased from 82% in FY 2012 to 78% in FY 2013. We believe that when we successfully engage our people, they stay with us for longer, become more efficient, provide better service to our guests and in turn drive like-for-like sales. Further reductions in staff turnover are therefore a key focus going forward. We are also committed to providing career opportunities to young people through our apprenticeship schemes, with approximately 1,600 employees completing a programme at our year end. We are particularly proud of our Browns apprenticeship programme, which is now in its second year, and our Management Development Apprenticeship, which began in Country Pubs and is now expanding across many of our other brands.

Our practices: Practices refer to the professional and efficient way that we run our operations. We continue to focus on improving our already high scores in the FSA's Food Hygiene Ratings. This year, we have broadly maintained outlet level employment costs as a percentage of sales at 25.4% whilst improving service, especially at peak times. Our purchasing teams have continued to restrict cost increases, especially in food, where overall inflation has been kept to below 1% over the year compared to market inflation of approximately 5% (sources: ONS, Prestige Purchasing). As a result of these actions, together with lower pre-opening and closure costs and the residual savings from the restructuring in FY 2012, operating expenses have marginally decreased and operating margins increased by 0.5 percentage points.

Our guests: We have chosen not to drive short term like-for-like sales through increased and unfocused promotional activity. We aim to improve our relative like-for-like performance through delivering consistently excellent guest experiences, leading to increased revisits and recommendation. The key driver of this will be the willingness of guests to recommend our businesses to their friends and family which we measure through our net promoter score*. This year, the net promoter score across the business has increased by 4 percentage points to 59%. All of our restaurants and pubs now have access to a live dashboard which lets them see how they are scoring against the most critical measures that drive guests to revisit and recommend our business to their friends, as well as seeing comments from TripAdvisor and Facebook reviews.

Our profits: This year, adjusted earnings per share were up 17% based on higher sales, improved operating margins and lower interest charges, as described in the Financial Review. The 50 basis point operating margin improvement is a good result and in line with our previously stated aim to protect our operating margins and seek incremental opportunities to expand them in the medium term.

Outlook

The transformation programme is designed to deliver the key building blocks of sustainable growth. Informed by guest insight, we will make further progress next year through investment into service, training and development, systems improvements and improved capital allocation.

In particular, a variety of projects will start to benefit the business. In our Retail Support Centre, these include investment into new central systems in payroll and finance. In our restaurants and pubs, we are in the early stages of a project to replace our till, payment, table management and kitchen management systems. The new systems will enable the delivery of significantly improved guest service, measured both in quality and speed, and allow improvements in menus and promotional activity to manage our gross margins better. The new systems are being rolled out at pace across the business, with 125 sites live at the year end and 320 sites by the end of November.

We are cautious about the strength of the economic recovery over the next year and expect ongoing variation by geography and consumer group. Like-for-like sales were up 0.1% in the first eight weeks of the new financial year. We are pleased with the progress we are making on our transformation programme and, as a result, we are well placed to deliver sustainable profit growth and shareholder value in the future.

Alistair Darby
Chief Executive

* We ask our guests how likely they are to recommend our restaurants and pubs to their friends, families and colleagues, scored out of 10. Each year we obtain around 700,000 responses. The net promoter score for a pub is defined as the percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 out of 10 ('brand detractors'). Responses scoring 7 or 8 ('passives') are ignored in the calculation. The periodic pub scores are averaged to calculate the overall score.

+17%

Increase in Adjusted EPS

1,600

Employees completing apprenticeships

Corporate social responsibility

2013 Highlights

500
The number of new jobs we have created

4,450
Food waste recycling has generated enough electricity to power 4,450 UK households

£300k
Around £300,000 donated and raised through corporate, brand, employee and guest fundraising activities

59
Tonnes of salt removed from our menus

33k
The number of employees who had their say in our annual engagement survey

Introduction
Mitchells & Butlers believes that social responsibility is all about how our practices impact on:

- our people;
- our guests;
- the communities in which we operate; and
- the environment.

In this section, we focus on the highlights from 2013. More information and case studies can be found in our Social Responsibility Review 2013 which can be found at mbplc.com/responsibility

Good food
As the largest on-trade caterer in the country the quality of the food we serve is of paramount importance to us. Our guests trust us to serve good food that represents good value for money, which is safely prepared and cooked. They also trust us to source food that is both sustainable and ethical, with due regard for high standards of both workers and animal welfare.

What's in our food?
Nutrition
We have made excellent progress in analysing the nutritional content of our menus. This information is currently available online for core menu items in Harvester, Toby Carvery and Crown Carveries.

In All Bar One, Ember Inns and a number of our Heartland pubs, meals that contain fewer than 700 calories are highlighted on the main menus. In Harvester, we print calorific values on all our menus, including the Young Guests menu.

Chefs in any of our businesses will happily respond to a guest's requests to swap, for example, potatoes for a side salad and, wherever possible, serve dressings and sauces separately.

Allergens
We are making good progress in meeting the December 2014 deadline when new EU legislation comes into effect concerning the availability of information about 14 common food allergens.

Harvester prints the calorific value of all dishes on its menus and Young Guests' menus.

We have made significant progress in increasing the number of our retail businesses that achieved a 4 or 5 star food hygiene rating.

We recently updated our Alcohol and Social Responsibility Policy which highlights best practice.

Mitchells & Butlers was crowned Foodservice Operator of the Year 2013 at the British Turkey Awards.

Salt

We are committed to the Public Health Responsibility Deal Salt Pledge for Caterers and have made good progress towards meeting our ambition to reduce the overall salt content of the dishes we serve.

First, we have been working closely with our suppliers to reduce salt levels in 27 products – for example bacon – that contribute the highest amount of salt to the dishes we serve. As a result of this work 59 tonnes of salt per annum has now been removed from our menus.

Secondly, a trial has been running in 240 of our businesses using a salt blend where a percentage of the refined salt is replaced with natural minerals. In the trial businesses this product is being used in our kitchens during the cooking process and it also replaces standard table salt – should our guests have a personal preference to add more salt to their meal.

Harvester, Toby Carvery and Crown Carveries all display the salt content of core menu items online, including Young Guests' meals.

Food sourcing

We take into account a number of factors when buying food: the health and safety of our guests, the quality, the provenance and price.

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

We have made progress in our ambition to shorten the supply chain route and our buyers now deal with many suppliers directly. For example, we now deal direct with growers in the UK for potatoes, carrots, onions and mushrooms; removing the wholesaler's margin and delivering fresher products to our kitchens.

This year saw the launch of our Quality Cattle Scheme, a new and exciting initiative offering direct contracts with British beef farmers. The scheme creates a secure, quality beef supply for Mitchells & Butlers' restaurants and pubs, through a model which guarantees a margin and market for the farmer.

We also joined forces with a group of farmers located in the National Parks to rear lamb for selected Mitchells & Butlers brands. The farmers receive an agreed margin per animal and have a guaranteed market for their lambs. This means we will be able to offer British lamb that is fully traceable.

Mitchells & Butlers was crowned Foodservice Operator of the Year 2013 at the British Turkey Awards. The award was presented for our long-term support and year round commitment to UK turkey production. Toby Carvery alone uses around 68 tonnes of fresh British turkey each week.

Food safety

We have made significant progress in increasing the number of our retail businesses that achieved a 4 or 5 star food hygiene rating. We take a zero tolerance approach to any of our businesses that achieve a score of 3 or below. We continue to strive for a score of 5 in each business and conduct independently commissioned audits in all of our businesses at least twice per year. We have rigorous checks and policies in place to ensure we do things right and we consult regularly with government and local authorities to ensure we maintain the highest standards in food safety.

The responsible retailing of alcohol

Serving around 410 million drinks each year in a responsible way is a fundamental part of how we operate our businesses. We recently updated our Alcohol and Social Responsibility Policy which highlights best practice in the following areas:

- promoting responsible drinking;
- responsible pricing and promotions;
- preventing underage drinking;
- working in partnership with local authorities, government and Pubwatch;
- investing in training our teams; and
- creating a safe and secure environment for our guests and employees.

The Policy has been communicated to all our frontline teams and is a key tool in understanding and promoting the high standards of responsible retailing we want to achieve and maintain.

Mitchells & Butlers donated a substantial sum of money to the charity Drinkaware last financial year. Our donation assisted the charity in their aims to promote responsible drinking, find innovative ways to challenge the national drinking culture, help reduce alcohol misuse and minimise alcohol-related harm.

People love to work with us

Last year saw the creation of our three-year People Strategy; *People love to work with us*. In a growth industry that historically has high levels of employee turnover, the strategy lays out our long-term plan to attract the best people and to provide effective training and development and a fair reward and recognition framework. We believe that this strategy will result in increased levels of employee engagement and in reduced employee turnover. Last financial year our hourly paid retail staff turnover was 4% lower, meaning fewer people left Mitchells & Butlers than in the previous year.

Creating jobs

Last year we created 500 new jobs by opening new retail sites across the UK.

Corporate social responsibility continued

1,600

Apprentices on vocational learning programmes across the UK

Listening to our people: 83% of our employees had their say in our annual engagement survey.

Vocational learning: a partnership that is now considered a model within the hospitality industry.

pickaperk

pickaperk – our new employee benefits platform.

Vocational Learning

We have around 1,600 apprentices on vocational learning programmes across the UK.

After working together for a decade, Mitchells & Butlers and its training provider partner, Babcock International Group, were recognised at the Hospitality Guild Apprenticeship Awards in the Partnership of the Year category. The partnership is now considered to be a best practice model within the hospitality industry.

Careers and learning

All of our employees have access to information about how they can progress their career with us. We have a number of learning and development programmes in place across Mitchells & Butlers, from a chef's induction to executive coaching.

Listening to our people

We continue to encourage feedback from our employees about their working relationship with the Company, their managers and their colleagues. In July 2013 83% (33,000) of our employees responded to our in-depth annual employee survey, *Your Say*. Our retail team member and general manager engagement levels remained relatively high and stable and our central retail support team engagement scores reached an all-time high.

Fair reward and recognition

We believe in fair rewards and recognising our people for their contribution. All of our employees have access to a wide range of Company benefits, such as Sharesave, Free Shares, employee discount, pension for eligible/entitled workers, dental plans and childcare vouchers.

On 1 January 2013, we became fully compliant with the Workplace Pensions Reform Regulations to enrol automatically all eligible workers into a Qualifying Workplace Pension Plan.

In February 2013 we launched a new employee benefits platform called *pickaperk* which offers our employees exclusive savings and discounts on millions of products and services from thousands of retailers. Last financial year our employees took advantage of discounted goods to the value of over £350,000.

There was widespread media coverage earlier this year about companies that employ people on a 'zero hours' contract. Company policy is to state clearly on a contract the minimum hours an employee is required to work.

Diversity

Mitchells & Butlers is committed to providing equal opportunities for all of our employees.

Our Diversity Policy ensures that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

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

The table below provides a breakdown of the gender of Directors and employees at the end of the financial year:

	Men	Women
Company Directors[1]	8	1
Other senior managers[2]	10	3
All employees	19,431	20,194

Notes:
1. Company Directors consists of the Company's Board, as detailed on pages 36 and 37.
2. 'Other senior managers' is as defined in The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and includes: i) persons responsible for planning, directing or controlling the activities of the company, or a strategically significant part of the company, other than Company Directors; and ii) any other Directors of undertakings included in the consolidated accounts.

GIVING SOMETHING BACK

Giving something back

We place a high importance on building strong relationships with our guests, our neighbours and our communities by encouraging our employees to support and fundraise for charitable and good causes.

The Good Cause Fund

This fund exists to help our pubs boost their local fundraising. Last financial year we donated over £19,000 to a number of deserving local charities and groups.

Employee donations programme

This fund exists to help individual Mitchells & Butlers employees (and retired employees) support a personal charity event or challenge of their choice. Last financial year we made donations of around £25,000 to a large number of local and national causes including Cancer Research UK, Birmingham Children's Hospital and Air Ambulance.

£44k

Last financial year we donated over £44,000 to a number of deserving local charities and groups through our Good Cause Fund and Employee donations programme (see page 30)

The Longhorn celebrates winning 'Best Charitable Pub' at the Publican's Morning Advertiser Pub of the Year Awards.

We effectively reduce, re-use and recycle the waste generated by our restaurants and pubs.

Supporting the Prince's Trust

We continue to support the Prince's Trust and last financial year made a corporate donation of £15,000. Additionally, a team of employees took part in the Prince's Trust Million Makers fundraising initiative, where teams compete to raise as much money as possible by setting up mini-enterprises. The Mitchells & Butlers team, Team Pride, raised over £75,000 in a variety of innovative ways. The Prince's Trust named Mitchells & Butlers 'top fundraiser' at their West Midlands annual recognition event, in recognition of Team Pride's outstanding achievement.

Big-hearted brands, pubs and people

Last year, Harvester continued their support for Make-A-Wish® and raised around £65,000 by donating 10p from every special charity sundae sold and holding individual restaurant fundraising events. This has brought Harvester's total donation to Make-A-Wish® so far to a staggering £105,000.

Our restaurants and pubs once again supported the Royal British Legion Poppy Appeal in November 2012 selling thousands of poppies to raise funds for thousands of serving and ex-Service people.

In March, O'Neill's danced its way into fundraising by holding its nationwide Join the Jig event to fundraise for worthwhile national and local causes. Their Join the Jig World Record Attempt was part of the St Patrick's Day celebrations and raised over £59,000 for a variety of good causes.

In May, 12 brave souls from across Mitchells & Butlers completed Tough Mudder 2013; a challenging 12 mile-long obstacle course designed by the Special Forces to test all-around strength, stamina, mental grit and camaraderie. The team raised over £6,000 for Birmingham Children's Hospital, Help For Heroes and LATCH.

In June, Crown Carveries offered armed forces personnel and veterans a free carvery meal or breakfast, for the fifth year running, to mark Armed Forces Day. The brand donated a total of 6,967 meals.

In September, The Longhorn in Walsall (Ember Inns) was crowned 'Best Charitable Pub' at the Publican's Morning Advertiser Pub of the Year Awards.

Environmental awareness

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

Carbon emissions

Our proactive management of energy consumption, procurement and carbon emissions continues to deliver significant benefits to our business. During the last year our electricity consumption has reduced by over 4% through a combination of behavioural change programmes and investment in making our buildings and equipment more energy efficient. The harsh winter made managing our gas consumption particularly challenging whilst keeping our restaurants and pubs warm and cosy for our guests. This resulted in a small increase in our overall emissions by 3.5% CO_2 (tonnes).

LED lighting installation

We have successfully completed the installation of LED lighting in guest-facing areas in all of our businesses. In total, we changed 237,000 lamps which helped us to make considerable savings on energy consumption as well as enhancing the ambience in our pubs.

Insulation and draught proofing

We have improved insulation and draught proofing, wherever possible, across the estate. This means more of the energy we use to heat our pubs was retained within the building which subsequently reduced our energy consumption.

Energy Managers Association

In recognition of the energy savings achieved by Mitchells & Butlers, our Head of Energy, Environment and Sustainability has been elected Chairman of the Energy Managers Association. The EMA is an organisation which works alongside Government and industry to promote reductions in energy consumption in the UK.

Water consumption

We are working with manufacturers and our suppliers to reduce the amount of water we use. We have begun the installation of AMR (automatic meter reading) equipment into our businesses to allow us to control our water consumption to even greater levels.

Less is more – waste management

We have established a solid waste disposal strategy to reduce, re-use and effectively recycle the waste generated by our restaurants and pubs. Based on current activity we are recycling the equivalent of 13,000 tonnes of cardboard, 19,500 tonnes of glass and 3,000 tonnes of aluminium per annum. Recycling this waste would save approximately 200,000 trees and thousands of tonnes of raw materials used in the manufacture of these items. Our current food waste recycling initiative would divert around 58,000 tonnes of food waste to energy from waste facilities, generating enough electricity to power 4,450 UK households and save around 700,000kg of CO_2 every month. These combined initiatives would divert over 90,000 tonnes of material from being sent to landfill.

More information can be found online at mbplc.com/responsibility

Financial review

FY 2013 contained 52 weeks, whereas FY 2012 was a 53 week period. Total revenues were £1,895m (FY 2012 £1,889m). After exceptional items and other adjustments, including movements in the value of the property portfolio, statutory profit before tax was £150m (FY 2012 £83m). Basic earnings per share were 32.9p (FY 2012 17.1p).

The Group discloses adjusted profit and earnings per share information that excludes exceptional items and other adjustments to allow a better understanding of the underlying trading of the Group. To provide a meaningful comparative for year-on-year performance, all year-on-year growth rates relating to the Income Statement are measured against the restated 52 week FY 2012 Income Statement, unless otherwise stated.

For comparative purposes, the adjusted 52 week and 53 week results for FY 2012 are shown in the table below:

	FY 2013 £m (52 weeks)	FY 2012 £m (52 weeks)	Variance % (52 weeks)	FY 2012 £m (53 weeks)
Revenue	**1,895**	1,855	2.2%	1,889
Adjusted EBITDA	**422**	407	3.7%	415
Adjusted operating profit	**312**	297	5.1%	304
Adjusted operating margin	**16.5%**	16.0%	0.5 ppts	16.1%
Adjusted profit before tax	**184**	162	13.6%	166
Adjusted EPS	**34.9p**	29.8p	17.1%	30.5p

At the end of the year, the business comprised 1,589 managed sites and 60 leased or franchised sites, in the UK and Germany.

Revenue

The Group's total revenues of £1,895m were 2.2 higher than FY 2012, driven by food sales growth of 3.3%, with drink sales growth of 1.0%. Food sales now account for more than half of total sales, reflecting the business's strategy to generate long-term growth from this market.

Like-for-like sales growth of 0.4% included like-for-like food sales growth of 0.8% and a like-for-like drink sales decline of 0.2%. Like-for-like sales were driven by increases in price and spend, with volumes lower in both categories. Food sales growth was weighted towards the first half of the year, with a number of the year's key calendar events, on which trading continues to be strong, falling into the first half. The second half of the year saw stronger drink sales growth, reflecting the impact of good weather seen throughout the summer and fewer specific special occasions.

Operating margins

Adjusted operating margins across the year improved by 0.5 ppts. Margins have been positively impacted by movements in the volume/spend mix (particularly in food, where gross margins have benefited from a combination of higher spend per head, significant purchasing improvements and menu management), the full year impact of restructuring savings delivered in FY 2012 and lower pre-opening and closure costs from new restaurants and pubs and conversions. These improvements were partially offset by increased duty on machine income, higher business rates charges and a continuing investment into service and amenity. As a result, adjusted operating profit was £312m, 5.1% higher than last year.

Internal rent

A regime of internal rents is in place to enable greater internal transparency around the performance of freehold and leasehold properties and external transparency concerning the performance of the operating and property functions. The operating performance is monitored on a regular basis through a system of profit reviews through

£312m

Adjusted operating profit was £312m, 5.1% higher than last year

£128m

Total capital expenditure was £128m

34.9p

Adjusted earnings per share were 34.9p, 17.1% higher than last year

all levels of the Group. Estate management is primarily monitored through the Portfolio Development Committee.

FY 2013	Operating £m	Property £m	Total £m
Revenue	1,895	–	1,895
EBITDAR	471	–	471
External Rent	(49)	–	(49)
Internal Rent	(192)	192	–
EBITDA pre exceptionals	230	192	422
EBITDA %	12.1%	–	22.3%

Interest

Adjusted net finance costs of £128m were £7m lower than the prior year measured on a 52 week basis, principally due to a £6m prior year accrual in relation to backdated interest on outstanding tax items. From September 2013, a step-up margin ranging from 0.35% to 1.28% was applied to four floating rate securitised notes with a combined principal value of £655m. This increases annual interest costs by £4m. There are no further step-ups in the securitisation arrangements.

After net finance costs, adjusted profit before tax was £184m, 13.6% higher than last year.

Taxation

The tax charge of £15m in the year (FY 2012, 53 weeks £13m) represents an effective rate of 10.0% (FY 2012 15.7%). This includes an £18m credit to deferred tax arising on the reduction in the main rate of corporation tax to 20% from April 2015. Excluding this item the effective rate of tax was 22%.

Exceptional items and other adjustments

Exceptional items and other adjustments consist of three items: a £5m net pensions finance charge; a £29m charge relating to the net movement in the property portfolio; and an £18m credit to deferred tax reflecting the reduction in the main rate of corporation tax to 20% from April 2015.

Earnings per share

Adjusted earnings per share were 34.9p, 17.1% higher than last year. After the exceptional items described above, basic earnings per share were 32.9p (FY 2012, 53 weeks 17.1p).

Cash flow and net debt

	FY 2013 £m (52 weeks)	FY 2012 £m (53 weeks)
EBITDA before exceptional items	**422**	415
Working capital movement/ non-cash items	**-11**	-28
Pension deficit contributions	**-40**	-40
Cash flow from operations before exceptional items	**371**	347
Maintenance and infrastructure capex	**-100**	-92
Interest	**-126**	-129
Tax and other	**-32**	-25
Free cash flow before exceptional items	**113**	101
Expansionary capex	**-28**	-55
Disposals	**1**	3
Operating exceptional	**-2**	-17
Net cash flow	**84**	32
Mandatory bond amortisation	**-55**	-52
Net cash flow after bond amortisation	**29**	-20

EBITDA of £422m was generated by the business in the year. The net working capital outflow of £11m includes a £15m payment on account to HMRC relating to unsettled tax on a previous transaction. Pension deficit contributions of £40m were made, in line with the deficit recovery plan agreed with the Trustees following the 2010 triennial review of the schemes. After maintenance capital, interest and tax, £113m of free cash was generated by the business.

There was a net cash inflow after bond amortisation of £29m in FY 2013 compared to an outflow of £20m in FY 2012.

Net debt was £1,759m, representing 4.2 times EBITDA (FY 2012 4.5 times 52 week EBITDA). Net debt within the securitisation was £2,023m and net cash held outside the securitisation was £264m.

Financial review
continued

£31m

The overall portfolio value has increased by £31m

4.2times

Net debt to EBITDA

Capital expenditure
Total capital expenditure was £128m, comprising £88m (FY 2012 £83m) spent on maintaining and enhancing the high level of amenity in the Group's restaurants and pubs, £12m on infrastructure projects (FY 2012 £9m), and £28m on new site openings (FY 2012 £55m).

Infrastructure projects include a significant IT project which will see all restaurant and pub till systems upgraded and the introduction of kitchen management systems in our food led businesses by the spring of 2015. The project is now in full roll out across the estate at an expected cost of £33m, of which approximately two thirds will be capital.

Other infrastructure projects relate to improving energy efficiency, upgrading our finance system and replacing our central HR system.

Blended EBITDA returns on expansionary capital invested across our brand portfolio remain at 17%. Given the varying nature of freehold acquisitions, leasehold acquisitions and conversions, the business reviews returns by category:

	FY 2013 Investments*	FY 2014 No. of sites	FY 2011 – 2013 EBITDA ROI
Freehold acquisitions	**£11m**	4	13%
Leasehold acquisitions	**£11m**	12	18%
Conversions	**£2m**	6	16%
Expansionary investment	**£24m**	22	17%

* FY 2013 Investments comprise expansionary capital specifically invested in respect of FY 2013 openings and conversions.

Property
A Red Book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuers, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall portfolio value has increased by £31m, reflecting a £29m charge in the income statement and a £60m increase in the revaluation reserve.

Pensions
Recent guidance has been published from the Financial Reporting Review Panel concerning the recognition and measurement of pension liabilities. It specifically considered the treatment of a schedule of contributions in relation to minimum funding requirements under IFRIC 14. As a result, the Group now includes the schedule of contributions within the calculation of the overall pension liability recorded on the balance sheet, and has restated comparative amounts from the last two financial years. There is no change to profit before tax and no cash impact. As calculated on this basis, the pre-tax pensions deficit as at 28 September 2013 was £248m.

From FY 2014, the Group will adopt IAS 19 (revised): *Employee Benefits*. As a result, annual administration costs of the schemes of approximately £2m will now be charged within Group operating profit, rather than netted against the pensions finance charge.

Discussions continue between the Group and the Pension Trustees regarding the measurement and funding of the triennial valuation, as at 31 March 2013. Pending the conclusion of this process, the Group continues to make contributions totalling £40m per annum into the schemes.

Dividend
The Board is mindful of the attraction of the resumption of dividend payments and will continue to monitor anticipated net cash flow generation, before taking a decision on timing and quantum.

Tim Jones
Finance Director

Governance

In this section:

Board of Directors

1. Bob Ivell

2. Alistair Darby

3. Tim Jones

4. Stewart Gilliland

5. Eddie Irwin

6. Douglas McMahon

7. Ron Robson

8. Colin Rutherford

9. Imelda Walsh

1. Bob Ivell, aged 61
Non-Executive Chairman[bc]

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

2. Alistair Darby, aged 47
Chief Executive[d]

Alistair was appointed Chief Executive in October 2012. He has more than 20 years' experience working in some of the UK's best known brands in the pub, drinks and consumer sectors, including roles with Mars Confectionery, Wolverhampton and Dudley Breweries and United Distillers. He joined Marston's PLC in 1997 where he held senior operational and strategic roles, becoming a Board member in 2003 and Chief Operating Officer in 2011. Alistair is a director of Cask Marque, an independent non-profit making organisation, set up to improve the quality of cask ale in pubs by way of an accreditation scheme.

3. Tim Jones, aged 50
Finance Director[d]

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

4. Stewart Gilliland, aged 56
Independent Non-Executive Director[abc]

Appointed as an independent Non-Executive Director in May 2013. 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 a Non-Executive Director of Booker Group Plc, Sutton and East Surrey Water Co, Tulip Group Limited, Nature's Way Foods Limited, C&C Group and Vianet Plc.

5. Eddie Irwin, aged 54
Non-Executive Director[abc]

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

6. Douglas McMahon, aged 48
Non-Executive Director

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

7. Ron Robson, aged 50
Deputy Chairman[abc]

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

8. Colin Rutherford, aged 54
Independent Non-Executive Director[abc]

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

9. Imelda Walsh, aged 49
Independent Non-Executive Director[abc]

Appointed as an independent Non-Executive Director in April 2013, Imelda is a Non-Executive Director, and Chair of the Remuneration Committee, of both William Hill plc and Mothercare plc. She was a Non-Executive Director, and Chair of the Remuneration Committee, of Sainsbury's Bank plc from 2006 to 2010. She has held senior executive roles at J Sainsbury plc, where she was Group HR Director from March 2004 to July 2010, Barclays Bank plc and Coca-Cola & Schweppes Beverages Limited. She is also a Director of the Mentoring Foundation and is a Trustee of Charity Projects Limited (Comic Relief) and Now Pensions Limited. Imelda is Chair of the Remuneration Committee.

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

Directors' report

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

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

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The Directors present their report and the audited financial statements for the year ended 28 September 2013. The business review of the Company and its subsidiaries is given on pages 7 to 34 which, together with the Corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 18 to 20 and 45 to 46 and details about financial instruments are shown in note 19 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on page 21.

This report has been prepared under current legislation and guidance in force at the year-end date. In addition, the material contained on pages 7 to 34 reflect the Directors' understanding of the new requirement to provide a Strategic Report which will apply to the Company in next year's 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 and any such responsibility or liability is expressly disclaimed.

Principal activities
Mitchells & Butlers is the UK's largest operator of managed restaurants and pubs and, as at 28 September 2013, had an estate of 1,649 sites including 60 leased and franchised sites and 40 restaurants in Germany.

Share capital
The Company's issued ordinary share capital as at 28 September 2013 comprised a single class of ordinary shares of which 411,011,098 shares were in issue and listed on the London Stock Exchange (29 September 2012 409,923,805 shares). Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 2,114,097 shares. Details of movements in the issued share capital can be found in note 22 to the financial statements on page 96. Each share carries the right to one vote at general meetings of the Company. Participants in the Share Incentive Plan ('SIP') may complete a Form of Instruction which is used by the SIP Trustee as the basis for voting on their behalf. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations.

During the year, shares with a nominal value of £92,873 were allotted under all-employee schemes as permitted under Section 549 Companies Act 2006. No securities were issued in connection with a rights issue during the year.

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

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 62 of the Report on Directors' remuneration.

Dividends
No final dividend will be paid in respect of the year ended 28 September 2013 (2012 nil). No interim dividend was paid during the year (2012 nil).

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

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	109,970,613	26.73	Direct holding
Elpida Group Limited	92,090,885	22.39	Direct holding
Smoothfield Holding Limited	16,205,101	3.94	Direct holding

* Using the total voting rights figure announced to the London Stock Exchange for 31 October 2013 of 411,356,223 shares.

Directors
Details of the Directors as at 25 November 2013 and their biographies are shown on pages 36 and 37. The Directors at 28 September 2013 and their interests in shares are shown on page 62. Changes to the Board of Directors during the year are set out in full in the Corporate Governance Statement on page 43. There were no changes to the Board of Directors subsequent to the year end, up to the date of this report.

The powers of the Company's Directors are set out in the Company's Articles of Association. In accordance with the best practice guidance of the UK Corporate Governance Code and with the Company's Articles of Association, the Directors will retire at the AGM and 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.

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 respective period of Directorship 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.

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. There were no related party transactions during the year, nor at the date of this report.

Essential contracts or arrangements

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

Change of control provisions

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

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

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

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

Provisions which apply in the event of a takeover or reconstruction

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

Employment policies

The Group employed an average of 41,325 people in 2013 (2012 41,178). Through its diversity and equal opportunities policy, the Company aims to provide an environment which enables people with disabilities to perform better by reviewing any reasonable adjustments that could be made to the duties, hours worked or working environment in respect of a disabled employee or potential employee. Through the Group's online recruitment system, candidates can inform the Group direct about their disability, so that the Group can make such reasonable adjustments, enabling them to perform to the best of their ability on assessment events.

Should any employee of the Group become disabled during their time with it, the Group actively makes reasonable adjustments in accordance with current legislation, including arranging appropriate training, to keep the employee with the Group. Steps are taken which are designed both to increase the effectiveness of employees with disabilities and to ensure they are in a suitable role. A more detailed account can be found in the separately published Social Responsibility Review 2013 at www.mbplc.com/responsibility

Employee engagement

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

- a dedicated intranet for the Retail Support Team;
- a dedicated portal, 'OurHub', for retail employees;
- email news alerts;
- focus groups;
- weekly bulletins – specifically targeted at retail general managers and mobile workers;
- employee social media groups;
- line manager briefings;
- an annual conference and awards for our operators;
- a monthly magazine poster, Frontline News for the retail estate; and
- communications forums and roadshows held by function or brand across the Company.

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

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

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

Our retail teams participate in e-learning, covering food, health and fire safety, Challenge 21 and Intermediate Food Hygiene. We also have a visual training library, which houses short training videos to share best practice tips, health and safety, kitchen and cooking skills.

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

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. A total of 1,250,000 shares in the Company were purchased by the employee benefit trust during the 2012/13 financial year.

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

The policy of its principal operating subsidiaries is to agree specific terms with major suppliers and to abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in the month following that in which the subsidiaries receive a valid invoice. The average number of days the Group takes to pay an invoice is 31 days (2012 30 days).

Charitable donations and charitable activity
The Company continues to support community initiatives and charitable causes, full details of which are given on pages 30 and 31 in the Corporate social responsibility section of this Annual Report.

Political donations
The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2014 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

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

The current funding arrangements of the Group consist primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility). Further information regarding these arrangements is included in note 18 to the financial statements on page 91. The terms of the securitisation contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group treasury.

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

Going concern
The financial statements which appear on pages 68 to 106 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's financing is based on securitised debt and, within this context, a robust review has been undertaken of projected performance against the securitisation covenants. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See note 1 to the financial statements on page 73.

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

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

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

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

By order of the Board

Greg McMahon
Company Secretary and General Counsel
25 November 2013

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Company financial statements under IFRSs as adopted by the EU. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing each of the Group and Company financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

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

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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 and business review includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Signed by

Tim Jones
Finance Director
25 November 2013

Corporate governance statement

Corporate governance statement

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

A new edition of the Code was published in September 2012 and applies to reporting periods beginning on or after 1 October 2012. As our 2013 reporting period began before this date, we are continuing to report against the June 2010 edition of the Code, although the Board has adopted some of the new provisions in the revised code earlier than required.

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It gives me great pleasure to take this opportunity to update you on our progress in corporate governance over the past year. We have made significant improvements during the year both to our Board structure and our governance procedures and I am delighted to be able to report that many of the compliance deficiencies that we highlighted in our 2012 Annual Report, no longer apply. We have appointed a Chief Executive and three Independent Non-Executive Directors in order to achieve a more balanced Board and we have updated the Terms of Reference of all our Board Committees, which are now in line with current best practice. Full details are set out below.

Bob Ivell
Chairman

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the Code.

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

Following the appointment of three Independent Non-Executive Directors in April and May 2013, Committee members were appointed with effect from 11 July 2013 in order to move more in line with Code requirements. New Terms of Reference for the Remuneration, Audit and Nomination Committees and a Schedule of Matters Reserved for the Board were adopted, based on the model Terms of Reference and Schedule of Matters Reserved for the Board issued by the Institute of Chartered Secretaries & Administrators ('ICSA') in June and July 2013 respectively. Full details can be found in the Company's Corporate Governance Compliance Statement which is available from the Company Secretary.

The vast majority of the non-compliance issues highlighted in our 2012 Annual Report were resolved during the year ended 28 September 2013, as set out below. There are some areas where the Company does not fully comply and we have set out our reasons below, as permitted under the 'Comply or Explain' provisions of the Code.

A.1.1 Matters reserved for the Board
For part of the year, while the Board understood which matters were reserved as matters for the Board, there was no formal schedule setting out these matters. On 24 September 2013 the Board formally adopted a Schedule of Matters Reserved for the Board based on the model issued by ICSA in July 2013 but tailored to the individual needs of the Company and the Company is now compliant with this provision.

A.2.1 Division of responsibilities
For a few days at the beginning of the year, the Board did not comply with the requirement of the Code for the Chairman and Chief Executive roles to be assumed by different individuals. Alistair Darby was appointed as Chief Executive on 8 October 2012 and Bob Ivell resumed his role as Non-Executive Chairman on 12 November 2012 following completion of an induction period by Mr Darby and the Board has, since then, been fully compliant with provision A.2.1 of the Code.

A.4.1 Senior Independent Director and A.4.2 and B.6.3 Chairman's performance appraisal
For part of the year, there were no Independent Non-Executive Directors on the Board of the Company and as a result, the role of Senior Independent Director remained vacant and the Company did not comply with provision A.4.1 of the Code. The Board has only recently appointed further Non-Executive Directors and the Nomination Committee is still considering the most appropriate candidate to be identified as Senior Independent Director. In the meantime, all Directors will be available to shareholders, via the Company Secretary, to address any questions raised.

In light of the fact that the Company has no Senior Independent Director and has only relatively recently appointed Independent Non-Executive Directors, an annual appraisal of the Chairman's performance was not conducted in the financial year. Annual reviews of the Chairman's performance will be conducted as required by the Code and this has been specifically included in the Board's forward timetable for the 2013/14 financial year.

B.1 (including B.1.2 Composition of the Board) and B.2.1, C.3.1, D.2.1 and D.2.2 Constitution of Committees
For part of the year there were no Independent Non-Executive Directors on the Board. Three Independent Non-Executive Directors were appointed during the year, meaning that the Board moved significantly further towards compliance with the provisions of the Code relating to Board composition. 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 their investment. The Board will continue to work closely with the major shareholders to further the interests of the Company.

The absence of Independent Non-Executive Directors on the Board for part of the year meant that the Nomination Committee, Audit Committee and Remuneration Committee were not constituted in accordance with, and could not meet, conduct business or undertake the actions provided for in, the Code and, during such time, all Committee matters were handled by the full Board. Following the appointment of the three new Independent Non-Executive Directors in April and May 2013, the Company now has fully functioning committees as required by the Code. The Committees are not fully compliant in that they include the presence of representatives of major shareholders; nevertheless the Board values their contribution, does not consider this to be an impediment to good governance and looks forward to working with them on governance matters in the future.

B.6.2 Evaluation

During the year, three new Independent Non-Executive Directors were appointed to the Board. Those newly appointed Directors have now completed their induction, facilitated by the Company Secretary. In July 2013, the Board confirmed the composition of its Audit, Remuneration and Nomination Committees. The Board, and each of those Committees, have now agreed their respective terms of reference and the Board has adopted a series of corporate governance procedures, including a list of matters reserved by the Board for its own decision.

In light of the fact that the newly constituted Board has only recently settled into a regular pattern of activity, the Board feels that a detailed evaluation, at this stage, would be premature. However, as the Board and its Committees establish a pattern of activity, the Nomination Committee, chaired by the Non-Executive Chairman, in conjunction with the Company Secretary will review during the 2013/14 financial year the most appropriate fashion for conducting a Board evaluation. It is likely that any externally facilitated evaluation will not be held until at least the FY 2014/15 financial year but this is still being kept under review.

The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 47 to 49. The information required by DTR 7.2 is set out in this corporate governance statement, other than that required under DTR 7.2.6 which is set out in the Directors' report on pages 38 to 40.

Board composition

A table listing all changes to the Board during the year is in the table opposite. On 8 October 2012, Alistair Darby was appointed as Chief Executive, on 22 April 2013 Colin Rutherford and Imelda Walsh were appointed as Independent Non-Executive Directors and on 23 May 2013 Stewart Gilliland was appointed as a further Independent Non-Executive Director.

The Board

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

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

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

During FY 2013 there were 10 scheduled Board meetings. There was also one meeting of each of the Audit and Remuneration Committees. No meetings of the Nomination Committee were held. The table below shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising direct with the Chairman. There are 11 Board meetings currently planned for FY 2014.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Current Directors who served during the year				
Bob Ivell	10 (10)	–	1 (1)	–
Alistair Darby	10 (10)	–	–	–
Stewart Gilliland[1]	2 (3)	1 (1)	1 (1)	–
Eddie Irwin	10 (10)	1 (1)	1 (1)	–
Tim Jones	10 (10)	–	–	–
Douglas McMahon	8 (10)	–	–	–
Ron Robson	8 (10)	0 (1)	0 (1)	–
Colin Rutherford[2]	4 (4)	1 (1)	1 (1)	–
Imelda Walsh[2]	4 (4)	1 (1)	1 (1)	–
Former Directors who served during the year				
Doug Evans	4 (4)	–	–	–

1. Appointed 23 May 2013.
2. Appointed 22 April 2013.

Directors

The following were Directors of the Company during the year ended 28 September 2013:

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

		Date appointed	Date ceased
Former Directors who served during the year			
Doug Evans	Director	26/10/11	31/01/13

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Limited.
3. Nominated shareholder representative of Piedmont Inc.

Corporate governance statement
continued

Details of the Executive Directors' service contracts are set out on page 56 and on the Company's website. The Chairman and each of the Non-Executive Directors have letters of appointment which are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

All the Company's Directors are required to stand for annual re-election in accordance with provision B.7.1 of the Code and the Company's Articles of Association. Their biographical details as at 25 November 2013 are set out on page 37, including their main commitments outside the Company. Further information is below.

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

Chief Executive
Bob Ivell discharged the duties of the Chief Executive from 26 October 2011 until the appointment of Alistair Darby on 8 October 2012, with a formal handover of responsibilities taking place on 12 November 2012 following completion of an induction period by Mr Darby.

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

Senior Independent Director
The Board has not currently identified any of its members as Senior Independent Director although this is a matter which the Nomination Committee is keeping under review in the light of the appointments of Independent Non-Executive Directors in April and May 2013.

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

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

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

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

Other than their fees which are disclosed on page 59, the Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Board will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

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

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

For part of FY 2013 until 11 July 2013, the business which would normally be considered by Committees was considered by the Board as a whole.

Audit Committee
Details of the Audit Committee are included in the Audit Committee report on pages 47 to 49 and are incorporated by reference into this Statement.

Remuneration Committee
Details of the Remuneration Committee are included in the Report on Directors' remuneration on pages 50 to 64 and are incorporated by reference into this Statement.

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

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

	Appointment date	Member at 28/09/13
Bob Ivell (Chair)	11/07/13	Y
Stewart Gilliland	11/07/13	Y
Eddie Irwin	11/07/13	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

During the year, the Company did not comply with provision B.2.1 of the Code in respect of a Nomination Committee consisting of a majority of Independent Non-Executive Directors. Prior to the appointment of Stewart Gilliland, Colin Rutherford and Imelda Walsh, the Nomination Committee was not fully constituted, no meetings were held and its role was taken on by the full Board, so that there was at all times a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. Directors did not attend the relevant meetings where their own roles were being discussed. Following the appointment of the three Independent Non-Executive Directors in April and May 2013, Nomination Committee members were appointed with effect from 11 July 2013, and revised terms of reference established, in order to move more in line with Code requirements.

The Board considered the appointments of Colin Rutherford, Imelda Walsh and Stewart Gilliland. Independent advice was taken in relation to their appointments from Spencer Stuart, an executive search and leadership consulting firm. Any Director unable to attend a meeting was provided with all the papers and information relating to that meeting and was able to discuss issues arising direct with the Chairman and the Company Secretary.

General Purposes Committee

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

Executive Committee

The Executive Committee, which is chaired by the Chief Executive (previously by the Chairman), consists of the Executive Directors and certain other senior executives, namely Matthew Jenkins (Marketing Director), Gary John (Group Property Director), Susan Martindale (Group HR Director), Greg McMahon (Company Secretary and General Counsel) and Robin Young (Operations Director).

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

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

Independent advice

Members of the Board may take independent professional advice in the furtherance of their duties and 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 advisers and its external auditor.

Code of Ethics

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

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

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

The Company also offers an independently administered, confidential, whistleblowing hotline for any employee wishing to report any concern that they feel is inappropriate to raise with their line manager. All whistleblowing allegations are reported to and considered by the Executive Committee and Board.

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

Internal control and risk management

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

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

- An overall governance framework including:
  - i. clearly defined delegation of authority and reporting lines;
  - ii. a comprehensive set of policies and procedures that employees are required to follow; and
  - iii. the Group's Code of Ethics, in respect of which an annual confirmation of compliance is obtained from all corporate employees.
- Processes, including monitoring by the Board, in respect of:
  - i. financial performance within a comprehensive financial planning, accounting and reporting framework;
  - ii. strategic plan achievement;
  - iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
  - iv. consumer insight data and actions to evolve brands and formats to ensure that they continue to be appealing and relevant.
- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board, Audit Committee and Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met four times during FY 2013, 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 strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments;
  - ii. advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the overall risk appetite and strategy;
  - iii. promote the management of risk throughout the organisation;
  - iv. review and monitor the Company's capability and processes to identify and manage risks;
  - v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
  - vi. where mitigation plans are inadequate, recommend improvement actions.

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

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

Corporate governance statement
continued

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

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

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

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

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company formally updates the market on its financial performance at least five times a year, at the half year and full year results in May and November respectively, the interim management statements in January and July and by way of a pre-close trading update in September. 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 back 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 AGM provides a useful interface with shareholders, many of whom are also customers. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated.

Board effectiveness evaluation

As explained above, in view of the recent changes to the Board, a detailed evaluation was not carried out during FY 2013. It is expected that during FY 2014, the Nomination Committee, in conjunction with the Company Secretary and General Counsel, will review the most appropriate method for conducting a Board evaluation with the expectation that any externally facilitated evaluation will not take place until at least FY 2015.

Going concern

The Directors' statement as to going concern can be found on page 40.

Audit Committee report

Colin Rutherford
Chair of the
Audit Committee

Introduction from the Audit Committee Chair

Following my appointment as Chair of the Audit Committee in July 2013, I am delighted to present on behalf of the Board our Audit Committee report for the financial year ended 28 September 2013. I would like to take this opportunity to thank Ron Robson for his efforts as Audit Committee Chair over the previous two years.

Since my appointment, I have been committed to gaining a broad understanding of the Company, its operations and its challenges and have spent valuable time with key individuals across the Group who have collectively provided me with an appreciation and useful insight into how the Company functions. The main areas of focus since July 2013 have been to consider the critical accounting judgements and the key operational and financial risks facing the business.

A key area of the Audit Committee's work going forward will be to work closely with both the external auditors and the Director of Group Assurance & Risk Management. This will enable me to gain an in-depth understanding on how external audit works with Group Assurance to give comprehensive coverage on the overall audit process and how it uses its resources if any additional assurance could be provided where necessary.

The role of the Audit Committee is now more important than ever in reviewing the effectiveness of the Group's internal controls, providing assurance on the Group risk management processes and assessing and acting upon information received by external auditors and internal audit.

As we work together as a newly formed Audit Committee, over time we will develop a better appreciation for additional information that Committee members may need in order to maintain effectiveness and add value to the Group.

Colin Rutherford
Chair of the Audit Committee

Membership and remit of the Audit Committee

The main purpose of the Audit Committee is to review and maintain oversight of the 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 auditors.

At the date of the 2013 Annual Report, the Audit Committee comprises three Independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Stewart Gilliland 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 experience, appear on page 37.

Following the appointment of three Independent Non-Executive Directors in April and May 2013, Committee members were appointed with effect from 11 July 2013, and revised terms of reference established, in order to move more in line with Code requirements. The Audit Committee normally meets at least four times a year. The full Board reviewed audit matters at three meetings during FY 2013 and the Audit Committee reviewed audit matters at its first meeting in September 2013.

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

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 59.

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: http://www.mbplc.com/pdf/audit_committee_terms.pdf

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

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

Audit Committee report
continued

The role and responsibilities of the Audit Committee are to:

- review the Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external auditor Company financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, known as Group Assurance, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's key risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and 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 Director of Group Assurance & Risk Management, or Company management, either after consideration of the Company's major risks or in response to developing issues. During the year, the Board (until July 2013) and the Audit Committee (after July 2013) considered the following matters:

- 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 external auditor's half year and full year reports;
- reappointment and evaluation of the performance of the external auditor, including recommendations to the Board for approval by shareholders, on the appointment of the Company's external auditors and approval of fees and terms of engagement;
- non-audit work carried out by the external auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the co-ordination of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2013 regarding the level of achievement and the scope of the internal audit plan for FY 2014;
- periodic internal control and assurance reports from Group Assurance;
- the Group's Risk Management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of control effectiveness;
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures including a summary of reports received during FY 2013.

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 73 to 98. The Audit Committee's review included consideration of the following key accounting judgements:

- **Property –** the Group's freehold and long leasehold assets form the vast majority of the £3.9bn property, plant and equipment value on the balance sheet. The Group's policy is to undertake an annual valuation of freehold and long leasehold properties based on inspection of 20% of the sites by the Group's independent chartered surveyors. Significant accounting judgements are made in respect of valuation multiples and in determining levels of fair maintainable trade. This is a prime area of audit focus;
- **Pensions –** actuarial assumptions, including judgements in relation to long-term interest rates, inflation, longevity and investment returns, are taken on advice from the Group's pension adviser. The final calculations in respect of the defined benefit pension scheme liability are performed by our pension scheme actuary. The Audit Committee also considered the restatement of the prior period end pension deficit, as described in note 8 to the financial statements; and
- **Taxation –** assessment of judgements made in relation to uncertain tax positions, regarding the outcome of negotiations with and enquiries from HM Revenue & Customs. Judgements have been made following discussion with the Group's tax advisers and internal review.

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 internal and external auditors to review the effectiveness of internal controls and risk management and receives reports from the Director of Group Assurance & Risk Management 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 Director of Group Assurance & Risk Management, 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 2013 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 2014 internal audit plan.

The principal objectives of the internal audit plan for FY 2013 were, and remain for FY 2014:

- 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 2013, 24 audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee. Internal audit recommendations are closely monitored through to closure via a web-based recommendation tracking system, introduced in FY 2013, which has improved the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

Risk management framework
As disclosed in the 'Risks and uncertainties' section on pages 18 to 20, the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. The Risk Committee met on four occasions in FY 2013. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chair)
- Group Finance Director
- Group HR Director
- Operations Director
- Director of Business Change & Technology
- Director of Group Assurance & Risk Management

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

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 2013 (major issues being defined for this purpose as matters having a financial impact greater than £100k).

External auditor appointment
Deloitte LLP were appointed as external auditors in 2011 following a formal tender process. The Audit Committee has considered the new guidance in relation to auditor rotation including the proposed transition rules which will be considered when recommending the appointment of the external auditor in future years. The Audit Committee considers that the relationship with the auditors is working well and is satisfied with their 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 external auditor. Following their appointment as external auditor, Deloitte LLP were replaced in respect of the provision of internal audit services by PricewaterhouseCoopers LLP.

External auditor's independence
The Audit Committee has an established policy aimed at safeguarding and supporting the independence and objectivity of the Group's external auditors; details of the policy are summarised below. The Audit Committee remains confident that the objectivity and independence of the external auditors are not in any way impaired by reason of the non-audit services which they provide to the Group.

The external auditor may carry out certain specified non-audit work, in areas that have been pre-approved by the Audit Committee, up to a monetary limit of half the audit fee per transaction and subject to an annual total cap of no more than the audit fee. Any other work for which management wishes to utilise the external auditor must be approved, subject to a de minimis limit, normally by the Committee or its Chair, for engagements up to a monetary limit of £50,000, subject to an annual total cap of £100,000 by the Finance Director. Acquisition and vendor due-diligence may only be provided by the external auditor if specifically approved by the Committee on a case-by-case basis in advance of any engagement commencing. The pre-approved services may be summarised as follows:

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

External audit annual assessment
The Audit Committee assesses annually the qualification, expertise, resources and independence of the Group's external auditors and the effectiveness of the audit process. The Finance Director, Company Secretary and General Counsel, Audit Committee Chair and Director of Group Assurance & Risk Management meet with the external auditors to discuss the audit and any key issues included on the Audit Committee's agenda during the year.

The Audit Committee has completed its assessment of the external auditors for the financial year 2013 and has satisfied itself as to their qualification, expertise and resources and remains confident that their objectivity and independence are not in any way impaired by reason of the non-audit services which they provide to the Group. The Committee has recommended to the Board, for approval by shareholders, the reappointment of Deloitte LLP, as the Group's external auditors. Resolutions will be proposed at the AGM on 30 January 2014 to reappoint Deloitte LLP as the Company's auditors and to authorise the Directors to agree their remuneration for the FY 2014 audit.

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

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

Approved by the Board

Colin Rutherford
Chair of the Audit Committee
25 November 2013

Report on Directors' remuneration

Imelda Walsh
Chair of the Remuneration Committee

Statement from the Committee Chair

Following my appointment as Chair of the Remuneration Committee in July 2013, I am pleased to present the Directors' remuneration report for the financial year which ended on 28 September 2013.

Over the past year, we have made significant progress in positioning the business for future sustainable growth, through improved consumer insight and our business transformation programme. In difficult economic conditions, performance has been strong, with improvements in sales, margins and adjusted earnings per share ('EPS').

The attraction, retention and motivation of an executive team with the skill and experience required to develop and grow our business profitably, is central to the work of the Remuneration Committee (the 'Committee'). In the period since my appointment my primary focus has been to understand our reward policies and prioritise work streams for the Committee in the year ahead.

As a Committee we are clear on the principles which will guide and inform our future decisions. These are that variable short and long-term reward should be linked to the financial performance of the Group and that base pay should be set by reference to personal contribution, experience and competence, as well as to the market conditions applicable to the role.

The following key remuneration activity occurred during the reporting year:

An award was made under the terms of the 2013 Performance Restricted Share Plan ('PRSP'), following shareholder approval at the January 2013 AGM. Full details are set out on page 60. As a condition to the PRSP award, all employees eligible to join the PRSP who were also participants in the 2010 Long Term Incentive Plan ('2010 LTIP') elected, in February 2013, to cancel without payment, any entitlement under the 2010 LTIP. Accordingly, no participants remain in the 2010 LTIP.

The Committee believes that the new PRSP provides Executive Directors and other members of senior management with a long-term incentive opportunity which is more closely aligned to the interests of shareholders and also provides an element of retention. Performance measures for the 2014 to 2016 award have been reviewed and the Committee is satisfied that EPS and relative total shareholder return (TSR), remain appropriate in supporting the delivery of the Group Strategic Plan.

The performance measure for the 2014 annual bonus will continue to be EPS.

This year, despite the challenging economic environment improvements have been made across all of our key metrics, with staff turnover reducing, net promoter scores improving and profits growing. This has been reflected in EPS growth of 17%. In this context, the Committee is satisfied that the bonus payment of 71% of the maximum for the Executive Directors is merited.

The Committee has also considered the base pay of the Executive Directors and of other Executive Committee members. In view of the improvements which have been made in financial performance, share price growth over the year of 40.6% and the progress made in delivering our business transformation programme, the Committee has decided that it is appropriate to reward Executive Directors with a modest increase in base pay of 2%. This is in line with the increase in base pay awarded to employees across the Group.

Except for the award under the PRSP, no changes to the structure of executive remuneration have applied in the reporting year and none are proposed for financial year 2014.

It is the intention of the Committee to conduct a review of our Executive Remuneration policy in the coming year and, if appropriate, propose amendments to ensure that it will continue to provide a robust and suitable framework for the business. The Committee will engage with shareholders and their representative bodies to develop an enduring, flexible policy which will continue to support the Company's strategy. It is proposed that the remuneration policy will, in line with legislative requirements, be set out in next year's Annual Report and will be the subject of a binding vote at the 2015 Annual General Meeting ('AGM').

We are committed to open and full disclosure of matters related to Executive Remuneration. Although not yet subject to the requirements of the new Companies Act disclosure regulations (the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the 'New Regulations'), this report reflects our understanding of the additional requirements arising from these regulations, including the disclosure of new data in a way that we believe will be most helpful to shareholders. This includes:

- The separation of the report into policy and annual report sections;
- A single figure of total remuneration for Directors; and
- The inclusion of a five year CEO earnings history and a comparison of the increase in CEO earnings against other salaried employees.

This report (both the policy and annual report sections) will be subject to an advisory vote at our AGM on 30 January 2014.

Imelda Walsh
Chair, Remuneration Committee

The Committee's responsibilities include:

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

The full terms of reference of the Committee are available on our website: www.mbplc.com/investors/businessconduct/boardcommittees and on request.

This report has been prepared on behalf of the Board and has been approved by the Board. The report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as they apply to companies with financial years ending on or before 30 September 2013), the 2010 UK Corporate Governance Code (the 'Code') and the Financial Conduct Authority Listing Rules. In addition, this report has been prepared to reflect the Committee's understanding of the additional disclosure requirements of the New Regulations (which will apply to the Company in next year's report). Throughout this report, references to the year are to the 52 week period ended 28 September 2013. Comparatives are for the 53 week period ended 29 September 2012.

In the year under review, the business of the Committee was considered by the Board up to the date on which the Committee was appointed and thereafter by the Committee. The Committee is constituted in accordance with the Code* and operates within terms of reference, a copy of which is available as set out above.

To reflect the requirements of the revised remuneration reporting regulations this report is presented in three sections: an annual statement from the Chair of the Committee; the policy report and the annual report.

* Provisions D.2.1 and D.2.2 of the Code were not complied with because up to and including the appointment of the Committee the matters to be determined by the Committee were determined by the Board as a whole. Thereafter the remuneration of the Directors and senior employees below the Board has been determined by the Committee, not the Board.

Policy report

This section of the report sets out the Company's remuneration policy for the year commencing 29 September 2013.

It is the responsibility of the Committee to determine a policy framework which ensures that Executive Directors' remuneration is appropriate to attract, retain and motivate Executive Directors with the skill and experience required to develop and grow the business profitably, to align Executive Directors' interests with those of shareholders and to provide the potential to earn significant rewards where significant shareholder value has been delivered.

Factors taken into account when setting remuneration policy

The Committee is mindful of a broad range of stakeholders in the business and accordingly takes account of a range of factors when setting remuneration policy including market conditions, pay and benefits in relevant comparator organisations, terms and conditions of employment across the Group, and shareholder feedback. The Committee is satisfied that the remuneration policy set out supports the Company's business strategy of growing long-term shareholder value and appropriately balances fixed and variable remuneration.

The Committee consults with the Company Chairman and the Chief Executive ('CEO') (except where conflicted) to set the remuneration policy. The Committee considers a broad range of internal and external information in determining policy; this includes a review of external benchmarking information when reviewing Executive Directors' base pay and as required on appointment of a new Executive Director or other Executive Committee member. Market data is provided to the Committee by its independently appointed advisers.

Shareholders and their representative bodies are consulted where material changes to the Executive Directors' remuneration policy are being considered. As well as taking account of institutional shareholder views in formulating remuneration policy, it should be noted that two members of the Committee (Ron Robson and Eddie Irwin) are representatives of the Company's two major shareholders (who together hold 49.16% of the issued share capital of the Company as at 28 September 2013).

It is a requirement of the New Regulations that, if obligations under the Company's previous remuneration policy are to remain in force, this must be stated and certain information must be provided. In view of the long-term nature of the Company's remuneration structures a number of pre-existing obligations will remain outstanding at the time that the new policy is approved, including obligations that were in force prior to or at 27 June 2012 (the relevant effective date for the purposes of the New Regulations). It is the Company's policy to honour in full any pre-existing obligations that have been entered into prior to the effective date of this policy.

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

Report on Directors' remuneration

continued

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

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Base salary				
Provides a sound basis on which to attract and retain executives of appropriate calibre to deliver the strategic objectives of the Group. To reflect the market value of the role, personal contribution, experience and competence.	Salaries are subject to annual review which is normally in line with that for the wider Group. Higher increases may be awarded where there is a commercial need to do so. The decision may be influenced by: • role, experience or performance; • average change in wider workforce pay; • Group profitability and prevailing market conditions; and • external benchmarking of similar roles at comparable companies. Any increase is normally effective from 1 January. Payable in cash, four-weekly throughout the year. Pensionable.	Normally set broadly in line with market median. A higher or lower base may be set where the Committee considers that there is a genuine business benefit in so doing. For example, an individual may be appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce.	Executive Directors' performance is reviewed in line with the established performance review process in place across the Group.	No recovery or withholding applies.
Annual Performance Bonus (cash and shares)				
Provides a direct link between the achievement of annual business performance targets and reward.	Bonus payment level is determined by the Committee by reference to performance against the targets set by the Committee prior to the commencement of the performance year. The cash element of the bonus is normally payable in December. Up to half of any bonus award is payable in cash. At least half of any bonus award is deferred as shares under the terms of the STDIP below. Executive Directors may request that the Committee exercise its discretion to defer more than half of any annual bonus awarded into shares. Non-pensionable. Key terms of the STDIP are: • deferred bonus share awards are normally released in two equal amounts 12 and 24 months after deferral; • at the discretion of the Committee Dividend Accrued Shares may be awarded on vested shares. Under the plan rules a Matching Share award may also be made although there is currently no intention to make Matching Share awards.	The normal maximum payment is 100% of base salary. At the discretion of the Committee, the maximum earnings potential may be increased in line with the plan rules to up to 200% of base salary. The maximum may comprise any combination of cash, deferred shares and Matching Shares, save that no more than half of any bonus award is paid in cash.	Annual bonus is currently payable based wholly on the EPS performance of the Group. Threshold vesting applies at 100% of target and pays 50% of base salary. Maximum vesting applies at 110% of target, with straight line vesting between these points. No bonus is payable for performance below target. The nature of the performance measure(s) and the targets are reviewed in advance of each new award. The Committee has the discretion to amend the measures and/or the targets to reflect business need. It is intended that any change will not result in targets which are materially less challenging. As the bonus is subject to performance conditions, any deferred bonus is not subject to further conditions.	No recovery or withholding applies to any bonus paid in cash. The deferred bonus share awards may be subject to forfeiture where the participant leaves the employment of the Group prior to vesting. Clawback applies to the deferred share award where it is subsequently identified that there has been a material misstatement of the performance which led to the award.
Performance Restricted Share Plan ('PRSP')				
To incentivise delivery of sustained growth through superior long-term performance, provide an element of retention and increase alignment with shareholders.	Discretionary annual award of nominal cost options. Vested options are exercisable immediately following confirmation of performance. At the discretion of the Committee vested options attract Dividend Accrued Shares between award and vesting. Under the rules of the PRSP, conditional share awards may also be granted although there is currently no plan to grant such awards. Non-pensionable.	Annual award of nominal cost options up to a maximum of 200% of salary.	Performance condition is measured over three financial years. The performance condition has two elements each with equal weighting, EPS growth and total shareholder return (TSR) relative to a peer group of comparator companies. For each element, 25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance. Straight line vesting applies between threshold and maximum. The Committee has the discretion to amend the measures and/or the targets to reflect business need. It is intended that any change will not result in targets which are materially less stretching.	The award may be subject to forfeiture where the participant leaves the employment of the Group prior to vesting.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
All-Employee Share Plans				
To underpin the employee engagement strategy and encourage employees to have a financial stake in the future of the Company.	All eligible employees can participate in the HM Revenue & Customs ('HMRC') approved Sharesave and SIP. **Sharesave:** all eligible employees can save between £5 and £250 per month over a three or five year maturity period. Proceeds from the savings contract may be used to acquire shares in the Company at an option price fixed at the date of invitation. **SIP:** all eligible employees are invited to participate. A **Free Share** award is made annually. Free shares are typically held in trust for at least three years. In addition, eligible employees may purchase, from their gross pay, **Partnership Shares**. Partnership Shares are held in trust and can be released at any time. Income tax and National Insurance Contributions are normally payable on the value of shares released within five years of purchase. The Committee has discretion under the SIP rules to operate **Matching Shares** and **Dividend Shares** elements, although there is currently no plan to do so.	**Sharesave:** Maximum savings of £250 per month over a three or five year maturity period. **SIP:** Maximum Free Share award with a value of £1,500 per tax year. Partnership Shares with an initial value of up to £1,500 per tax year.	**Sharesave:** No performance metrics apply. **SIP:** No performance metrics apply.	**Sharesave:** No recovery or withholding applies. **SIP:** No recovery or withholding applies.
Pension (or cash allowance)				
To provide a market-aligned retirement benefit.	Defined contribution scheme or cash allowance in lieu of Company pension contributions once statutory limits (Fixed Protection and Annual Allowance) are reached, or a combination of both. Where, as a result of Fixed Protection, the Executive Director is unable to join the pension plan, a cash allowance equivalent to the net cost to the Company of 20% of base salary applies. See page 61 for further detail on pension where the Annual Allowance or Fixed Protection apply.	The Company contribution is a maximum of 20% of base salary. The maximum cash allowance is equivalent to the net (i.e. after deduction of employers' National Insurance Contributions) cost to the Company of an equivalent pension contribution.	No performance metrics apply.	The trust deed and rules of the executive pension plan provide the plan trustees with a power to deduct the value of any unpaid contributions from the pension benefits of any member whose contributions are in arrears. The trustees may also repay scheme funds to the Company in the event that the trustees are required to make such a payment as a result of the criminal conduct, negligence or fraud of any member of the scheme.
Other benefits				
To provide market-aligned benefits.	Benefits include private healthcare, life assurance, annual health check, employee assistance programme, use of a Company vehicle or cash equivalent, and discounts on food and associated drinks purchased in our businesses. Private healthcare is provided for the Executive, spouse or partner and dependent children. Pension plan members, and eligible employees who are prevented from joining the plan as a result of holding Fixed Protection, have life assurance cover of 6x plan pay, other non members have life assurance cover of 1x plan pay. Discount vouchers are provided on the same basis to all employees and can be redeemed in any of our managed businesses provided the purchase is a personal, not a business, expense. Relocation or the temporary provision of accommodation may be offered where the Company requires a Director to relocate.	In line with market practice.	No performance metrics apply.	No recovery or withholding applies[a].
Shareholding Policy				
To align the interests of the Executive Directors with shareholders and promote a long-term approach.	Executive Directors are required to hold Mitchells & Butlers' shares to the value of a minimum of one times salary within five years of appointment to the Board. Except for those sold to cover the subscription cost together with the associated income tax and National Insurance Contributions, Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required has been achieved. Only shares owned outright by the Executive Director or a connected person are included. Shares or share options which are subject to a performance condition are not included. Deferred shares and options which are vested but unexercised are also not included Where the shareholding requirement is not met within five years of appointment the Committee retains the discretion, dependent on circumstances, to either extend the time period or approve, on a temporary basis, a lower shareholding.	n/a	n/a	n/a

a. A proportion of any relocation costs may be recovered where a Director leaves the employment of the Group within two years of appointment or date of relocation.

Notes to the Policy Table

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

Table 1

Element	Notes
Annual Performance Bonus	EPS was chosen as the annual bonus measure as it aligns the interests of shareholders and executives. Performance targets are determined annually by the Committee with on target performance being set in line with the Company's annual budget. All salaried employees participate in a bonus scheme. Save for certain operational and operational support roles where some, or all, of the annual bonus relates directly to the performance of the business or area for which the participant is responsible, a common (EPS) annual bonus target and weighting apply across all participating employees. Retail Staff do not participate in any bonus scheme.
PRSP	Around 60 senior employees including Executive Directors and members of the Executive Committee participate in the PRSP. No long-term incentive plans apply for any other employees. EPS was chosen as it is a measure of overall profitability of the business for investors over the long term and therefore is a fundamental element of aligning shareholders' interests with those of executives. TSR was chosen as relative TSR performance provides a measure of long-term success of the Company relative to the market in which it operates. This part of the award is also subject to a share price underpin and may only be exercised where the Mitchells & Butlers' share price has equalled or exceeded the share price at the date of award within six months of vesting. If this condition is not met, then the vested TSR element of the option will lapse.

Table 2

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

* As defined by legislation.

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

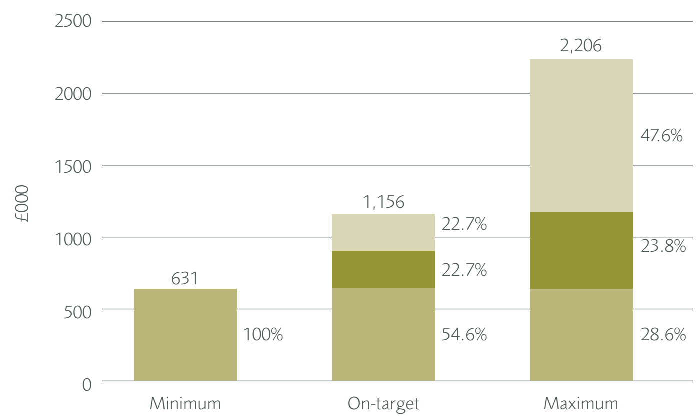
Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Fees				
To attract and retain Non-Executive Directors of appropriate calibre and experience.	Payable in cash, four-weekly throughout the year. Fees are normally reviewed annually with any increase usually taking effect from 1 January each year. Determined by the Company Chairman and Executive Board by reference to companies of similar size and complexity as well as time commitment and responsibilities. Non-Executive Directors receive a base fee and an additional fee for chairing a committee. Details are set out on page 59.	Where a Non Executive Director undertakes additional responsibilities, other than the chairing of a committee, additional fees may be set.	No performance metrics apply.	No recovery or withholding applies.

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

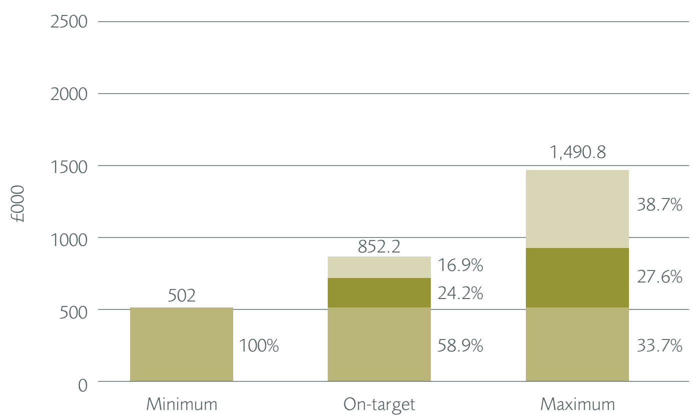
Illustrations of application of remuneration policy

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

CEO



Finance Director



- Fixed pay
- Short-term incentives
- Long-term incentives

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

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective at 28 September 2013. Benefits are as detailed in the Directors' remuneration table on page 58. Pension is the cash allowance and/or Company pension contribution payable in respect of base salary.

Target

Reflects the amount payable for on-target performance under the short and long-term incentive plans being:

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

Maximum

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 plan; and
- 200% of base salary for the CEO and 140% for the Finance Director vests under the long-term incentive plan.

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

	Fixed (£000)				Short-Term Plan (£000)		Long-Term Plan (£000)	
	Base Pay	Benefits	Pension	Total Fixed	On Target	Maximum	On Target	Maximum
CEO	525.0	14.0	92.0	631.0	262.5	525.0	262.5	1,050
Finance Director	412.0	14.0	76.0[a]	502.0	206.0	412.0	144.2	576.8

a. Comprising employer's contribution of £29,538 and cash supplement of £46,452.

Report on Directors' remuneration
continued

Service contracts
Executive Directors' contracts
The table below summarises key elements of the service contracts applicable to Executive Directors.

Notice Period	• Executive Directors are employed under service contracts that may be terminated by the Company at any time on one year's notice. • Any payment made in lieu of notice will comprise base salary only[a] and be payable in instalments in line with the established salary payment dates until the expiry of the notice period or, if earlier, the date on which alternative employment is secured.
Termination	• Where an Executive Director's employment with the Group ends for reasons of resignation or dismissal any entitlement to annual bonus in respect of the year in which the employment terminated will be forfeit unless by exception the Committee considers it appropriate to pay a pro-rated bonus for the period of service in the year. Any bonus due in respect of the prior year will also be forfeit if payment has not been made at the point of resignation or dismissal. By exception the Committee may consider it appropriate to pay bonus due in respect of a prior year. • Unless the Committee determines otherwise, an Executive Director who resigns from the employment of the Group, or who is dismissed, will lose his entitlement (if any) to vesting and, if applicable, exercise of vested options under each of the discretionary (PRSP and STDIP) share plans. • Where employment with the Group is ended for reasons of ill-health, injury, disability, retirement, redundancy, death or as a result of the sale of the business or company by which the Executive Director is employed, any unvested award under the PRSP, and/or the STDIP will, unless the Committee decides otherwise, be pro-rated for both time served and performance against the relevant targets. Vested awards must be exercised within six months of the date on which employment with the Group terminated. • The Committee has no discretion in relation to shares or options held under the all-employee share plans (SIP and Sharesave); on termination these will vest, become exercisable or lapse in accordance with HMRC-approved rules.

a. This arrangement applies to Alistair Darby. Any payments in lieu of notice in respect of Tim Jones, whose appointment and service contract pre-dates 27 June 2012 (the relevant date for the purposes of the New Regulations) and does not fall within the current policy, will comprise base salary and contractual benefits.

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

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

Details of the service contracts of Executive Directors who served during FY 2013 are set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Alistair Darby	08/10/12	Indefinite	12 months	6 months	No
Tim Jones	18/10/10[a]	Indefinite	12 months	6 months	No
Doug Evans	26/10/11[b]	nil[c]	12 months	6 months	No

a. Tim Jones' service contact pre-dates the New Regulations.
b. Replaced original contract of 17 January 2011.
c. Mr Evans left the employment of the Group on 31 January 2013. No termination payments were or are due to be made.

Executive Directors may accept one external non-executive appointment with the Company's prior approval as long as this is not likely to lead to conflict. Fees received may be retained by the Executive Director. No such non-executive appointments have applied in the year to 28 September 2013.

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 requirement B.7.1 of the Code and the Company's Articles, all Directors, including Non-Executive Directors, will stand for re-election at the 2014 AGM. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination. The dates of appointment of the Non-Executive Directors to the Committee are set out on page 57.

Douglas McMahon and Ron Robson were appointed to the Board under the Piedmont Deed of Appointment, information on which is set out on page 38.

Copies of both the individual letters of appointment for Non-Executive Directors, and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and will be available to shareholders to view at the 2014 AGM.

Recruitment of Executive Directors
Where it is necessary to appoint a replacement or additional Executive Director, the Committee will set a base salary appropriate to the experience and responsibilities of the new appointee.

The maximum level of variable pay, consistent with the plans approved by shareholders at the January 2013 AGM, is 400% of base salary (200% in relation to annual cash bonus/STDIP and 200% in relation to the PRSP). Benefits (pension, Company vehicle or cash allowance, healthcare, life assurance, health check and, where applicable, relocation assistance) would be consistent with the principles of the policy as set out on pages 52 to 54.

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

Recruitment of Non-Executive Directors
Chairman
The Committee will recommend to the Board a fee appropriate to the experience and responsibilities of the new appointee.

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

Consideration of employment conditions elsewhere in the Group
The Committee is regularly updated on pay and conditions applying to Group employees and is responsible for approving the variable pay structure for all Group employees. Details are provided for information at Committee meetings, normally on an annual basis. Where significant changes are proposed these are highlighted for the attention of the Committee at an early stage. The Committee is informed of the base pay review budget applicable to other employees and is cognisant of changes to the National Minimum Wage when considering the pay of Executive Directors.

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

Annual report

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

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

* Independent Non-Executive Directors.

During the year the Committee has received external advice from PricewaterhouseCoopers LLP ('PwC') on PRSP performance measures, salary benchmarking for senior employees and general remuneration advice. PwC were appointed in 2010 following an independent review of advisers. Fees payable to PwC in respect of remuneration advice in the reporting year totalled £43,300. In addition, during FY 2013 PwC undertook work in the following areas: internal audit, project assurance and VAT. PwC also provides pensions audit advice to the pension trustees.

Advice was also received from the Company's general legal advisers, Freshfields Bruckhaus Deringer LLP ('FBD'), on the operation of the Company's employee share schemes and on corporate governance matters.

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

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

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

Statement of voting at general meeting
The Committee is pleased that last year the remuneration report received a 99.04% shareholder vote in favour as set out below.

Votes Cast	Votes For[a]	%	Votes Against	%	Votes Withheld[b]
349,030,436	345,676,383	99.04	3,354,053	0.96	2,398,879

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 58 to 61 on Directors' remuneration, STDIP, 2010 LTIP, share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Report on Directors' remuneration

continued

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 measure are set out on page 59.

Executive Directors

	Basic salaries £000		Benefits[a] £000		Short-term incentives[b] £000		Cash paid in lieu of contribution to pension plan £000		Total emoluments £000		Long-term incentives[c] £000		Employer's contribution to pension plan £000		Total remuneration	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	**£000** 2013	£000* 2012
Alistair Darby[d]	**513**	–	**14**	–	**365**	–	**90**	–	**982**	–	**–**	–	**–**	–	**982**	–
Tim Jones	**408**	404	**14**	14	**290**	–	**46**	44	**758**	462	**–**	–	**30**	31	**788**	493
Doug Evans[e]	**87**	233	**5**	17	**–**	–	**3**	10	**95**	260	**–**	–	**14**	35	**109**	295
Sub Total Executive Directors	**1,008**	637	**33**	31	**655**	–	**139**	54	**1,835**	722	**–**	–	**44**	66	**1,879**	788

Non-Executive Directors

	Fees £000		Benefits[a] £000						Total emoluments £000						Total remuneration	
	2013	2012	2013	2012					2013	2012					**£000** 2013	£000* 2012
Bob Ivell[f]	**319**	582	**–**	–					**319**	582					**319**	582
Ron Robson[g]	**188**	203	**7**	76					**195**	279					**195**	279
Stewart Gilliland[h]	**18**	–		–					**18**	–					**18**	–
Eddie Irwin	**50**	27		–					**50**	27					**50**	27
Douglas E McMahon	**50**	51		–					**50**	51					**50**	51
Colin Rutherford[i]	**24**	–		–					**24**	–					**24**	–
Imelda Walsh[i]	**24**	–		–					**24**	–					**24**	–
Other[j]	**–**	86		–					**–**	86					**–**	86
Sub Total Non-Executive Directors	**673**	949	**7**	76					**680**	1,025					**680**	1,025
Total Executive Directors and Non-Executive Directors	**1,681**	1,586	**40**	107	**655**	–	**139**	54	**2,515**	1,747	**–**	–	**44**	66	**2,559**	1,813

Figures shown for 2012 are for a 53 week financial year.

* Or from date of appointment to the Board if this was on or after 25 September 2011.

a. Excludes the award of free shares under the all-employee SIP as set out on page 61 (£2,997 in respect of Tim Jones).
b. The short-term incentives are granted in the form of an annual bonus, 50% is paid in cash and the remainder is deferred into shares and is subject to the rules of the STDIP. The deferred remuneration is not subject to a performance condition, see page 52.
c. The long-term incentives are in the form of awards under the PRSP. See page 60 for details of the performance condition, weighting and performance period applicable to such awards.
d. Alistair Darby was appointed to the Board on 8 October 2012.
e. Doug Evans left the employment of the Group on 31 January 2013.
f. Bob Ivell stepped down as Executive Chairman and resumed the role of Non-Executive Chairman from 12 November 2012.
g. Benefits relate to the reimbursement of taxable expenses and the provision of serviced accommodation; the prior year total includes £7,716 in respect of expenses incurred but unclaimed in the financial year ended 24 September 2011.
h. Stewart Gilliland was appointed to the Board on 23 May 2013.
i. Colin Rutherford and Imelda Walsh were appointed to the Board on 22 April 2013.
j. In respect of Jeremy Blood who retired from the Board on 26 October 2011.

Executive Directors' salaries

Tim Jones' salary was reviewed from 1 January 2013. Based on performance, an increase of 3% (from £400,000 to £412,000) was awarded. Alistair Darby's salary (£525,000) has remained unchanged since his appointment in October 2012.

There were no payments made to former Directors during the year and no payments were, or are due to be, made in respect of loss of office.

Non-Executive Directors' fee level and structure

From July 2013 the fee structure applicable to the Non-Executive Directors was amended as set out below.

Dates	Basic fee £	Committee chair fee* £	Committee member fee* £
From 31 January 2011 to 10 July 2013	50,000	8,000	6,000
From 11 July 2013 to date	50,000	10,000	–

* Not applicable to Nomination Committee. The Committee member fee was payable in addition to the Committee chair fee.

No Committee membership or chair fee was paid in the reporting year up to 10 July 2013 as the matters to be determined by the Committee were determined by the Board.

Chairman

Bob Ivell resumed the role of Non-Executive Chairman from 12 November 2012 on the same terms as applied prior to his taking up the Executive Chairman role, being a fee of £275,000 per year, terminable by either party at any time without notice and without compensation.

Deputy Chairman

Ron Robson has served as Deputy Chairman since 14 July 2011. Until 31 August 2013 Mr Robson's annual fee was £200,000. From 1 September 2013 his annual fee reduced to £50,000 per year in line with the policy applicable to other Non-Executive Directors.

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in the policy section of this report. Details of the 2013 STDIP are set out below.

Annual Bonus Performance Measure	Performance	% of base salary payable
Adjusted earnings per share (EPS)	Target* 33.5p	50%
	Maximum (110% of target) 36.9p	100%

* Bonus is payable on a straight line basis between target and maximum.

The Group delivered EPS of 34.9p being 104.2% of target performance resulting in bonus payments of 71% of Executive Directors' base salary.

Half of the bonus earned by each of the Executive Directors was deferred into a conditional award of bonus under the terms of the STDIP.

Shares are released in two equal amounts, 12 and 24 months after deferral (the 'Release Dates').

If a participant leaves the employment of the Group before the Release Date, then, unless termination is on the grounds of ill-health, injury, disability, retirement, redundancy, death or as a result of the sale of the business or company by which the Executive Director is employed, he may lose entitlement to deferred shares as well as to any Dividend Accrued Shares unless the Committee determines otherwise.

Performance measurement under the annual performance bonus is reviewed and certified by the Company's auditor, Deloitte LLP.

As no annual bonus was payable in respect of performance in FY 2012 no deferred award was made under the STDIP in the reporting year.

Long-term incentives

Long-Term Incentive Plan 2010 ('2010 LTIP')

All participants in the 2010 LTIP cancelled, without payment, their rights to any vesting under that plan and the 2010 LTIP was closed in February 2013.

Details of awards made in prior years to participating Executive Directors and which have subsequently lapsed or been cancelled are set out below.

	End of year to which performance is based for award	Maximum 2010 LTIP share awards held at 29/09/12	Awarded	Award date	Market price at award (p)	Performance condition determination date	Actual/ planned vesting date	Maximum 2010 LTIP share awards held at 28/09/13
Director								
Tim Jones	2013	nil	a	29/11/10	345.6	29/07/13	b	nil
Former Director								
Doug Evans	2013	nil	a	17/01/11	351.4	29/07/13	b	nil

a. The participation percentage of the LTIP pool in respect of Tim Jones was 4.64% and in respect of Doug Evans it was 3.38%.
b. Mr Jones cancelled, without payment, his entitlement to any award under the 2010 LTIP in February 2013. Mr Evans' entitlement lapsed when he left the employment of the Group on 31 January 2013.

Long-term incentive awards made in FY 2013

Following approval by shareholders at the January 2013 AGM of the Performance Restricted Share Plan ('PRSP'), an award was made in accordance with the details set out in the policy section of this report.

The independent elements of the performance measure for the February 2013 award each of which accounts for 50% of the award are summarised below:

	Threshold vesting target*	Maximum vesting target
1. Compound annual adjusted Earnings Per Share ('EPS') growth (measured before exceptional items and other adjustments).	25% will vest if the compound annual EPS growth is 8%.	100% will vest if compound annual EPS growth is at least 16%.
2. Total Shareholder Return (TSR) relative to a peer group of comparator companies.**	25% will vest for TSR performance equivalent to the median of the comparator group.	100% will vest for TSR performance equivalent to the median of the comparator group x 1.35.

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

* Between threshold and maximum, vesting under each measure is on a straight line basis. Below threshold the award will lapse.
** Enterprise Inns, Punch Taverns, Fuller, Smith & Turner, Greene King, Marston's, Whitbread, J D Wetherspoon, Spirit Pub Company and The Restaurant Group.

EPS and TSR targets were set by the Committee having taken advice from PwC, its independently appointed adviser, and following consultation with shareholders and their representative bodies.

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

Around 60 senior employees participate in the PRSP; the award level varies by job category, ranging from 50% of base salary for the majority, up to 200% for the CEO. Details of awards made to Executive Directors under the PRSP are set out below.

	Maximum potential shares held at 29/09/12	Options awarded during the year to 28/09/13	Basis of award (% of Basic Annual Salary)	Award date	Market price per share at award date (p)	Lapsed during FY 2013	Exercised during FY 2013	Market price per share at exercise (p)	Value at exercise £	Actual/planned vesting date	Maximum potential options held at 28/09/13	Latest lapse date	Face value* £	Expected value** based on share price of 409.7p at 28/09/13 £
Executive Directors														
Alistair Darby	–	307,210	200	19/02/13	339.6	–	–	–	–	24/11/15	307,210	24/11/17	1,043,285	314,652
Tim Jones	–	169,846	140	19/02/13	339.6	–	–	–	–	24/11/15	169,846	24/11/17	576,797	173,962
Total		**477,056**									**477,056**		**1,620,082**	**488,619**

* Face value is the maximum number of shares that would vest if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the business day immediately preceding the award.
** Expected value is based on achievement of threshold performance (25% vesting of each element) less £1 exercise price.

The aggregate option price of each award is £1.

All-employee Sharesave and SIP

An award was made under each of the HMRC-approved all-employee share plans in line with the detail set out on page 53.

A grant under the Sharesave scheme was made in June 2013. Executive Directors' entitlements under the Sharesave schemes are set out on page 61.

A Free Share award under the SIP was made in June 2013. Executive Directors' entitlements under the SIP are also set out on page 61.

Tim Jones has participated in the Partnership Share element of the SIP since its launch in October 2012. Doug Evans was also a participant until his employment with the Group ended in January 2013. Executive Directors' entitlements under the Partnership Share element of the SIP are set out on page 61.

The tables below show Directors' share options under the Sharesave and shares under the SIP.

Sharesave

	Date of grant	Opening balance 30/09/12	Granted during period	Ordinary shares under option: Vested during period	Ordinary shares under option: Exercised during period	Ordinary shares under option: Lapsed during period	Closing balance at 28/09/13[a]	Option price (p)	Market share price on date of exercise	Earliest exercise date	Last expiry date
Director											
Tim Jones	20/06/12	4,945	–	–	–	–	4,945	182.0	–	01/10/15	31/03/16
Total		**4,945**	**–**	**–**	**–**	**–**	**4,945**	**–**	**–**	**–**	**–**
Former Director											
Doug Evans	20/06/12	8,241	–	–	–	8,241[b]	–	182.0	–	–	–
Total		**8,241**	**–**	**–**	**–**	**8,241**	**–**	**–**	**–**	**–**	**–**

a. Or date of termination of employment, if earlier.
b. Lapsed on 31 January 2013 when Mr Evans' employment with the Group ended.

SIP

As at 28 September 2013, or date of leaving if earlier, the Executive Directors had the following entitlements under the Free Share element of the all-employee SIP.

	Shares held at 29/09/12	Shares awarded during the year 30/09/12 to 28/09/13	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Shares held at 28/09/13[a]
Director							
Tim Jones	1,204	–	20/06/12	249.3	20/06/15	–	1,204
	–	800	28/06/13	374.6	28/06/16	–	800
Total	**1,204**	**800**	**–**	**–**	**–**	**–**	**2,004**
Former Director							
Doug Evans	769[b]	–	20/06/12	249.3	20/06/15	–	769[b]
Total	**769**	**–**	**–**	**–**	**–**	**–**	**769**

a. Or date of termination of employment, if earlier.
b. Lapsed on 31 January 2013 when Mr Evans' employment with the Group ended.

Directors' Pension Benefits

Pension (or cash allowance)

Tim Jones participates in the defined contribution section of the Mitchells & Butlers Executive Pension Plan (the 'Plan'). Under the Plan, Executive Directors' contributions of up to 5% of salary are matched on a four times basis by the Company. Doug Evans also participated in the Plan until his employment with the Group ended on 31 January 2013.

As an alternative to the Company's contribution to the Plan, a member who has (i) aggregate pension savings at or above the Lifetime Allowance threshold (£1.5m in tax year 2012/13 and 2013/14), or (ii) who has Fixed Protection; or (iii) whose combined (employee and Company) contributions to the Plan would otherwise be in excess of the Annual Allowance (£50,000 in tax year 2012/13 and 2013/14), may elect to receive a cash allowance equivalent to the net cost to the Company of the contribution which would otherwise have been made to the Plan.

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

Alistair Darby is not a member of the Plan. Mr Darby receives a cash allowance equivalent to the net cost to the Company of a 20% of base salary contribution.

	Company contribution (£)	Cash allowance (£)
Directors		
Alistair Darby	–	90,245
Tim Jones	29,620 (2012 30,725)	45,647 (2012 44,036)
Former Director		
Doug Evans	13,512 (2012 35,080)	3,125 (2012 10,208)

Report on Directors' remuneration

continued

Directors' interests

To align the interest of the Executive Directors with shareholders and promote a long-term approach, the Company operates the following shareholding guidelines:

- Executive Directors are expected to hold Mitchells & Butlers' shares to the value of a minimum of one times salary within five years of appointment to the Board;
- except for those sold to cover the subscription cost together with the associated income tax and National Insurance Contributions, Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required has been achieved; and
- only shares owned outright by the Executive Director or a connected person are included. Shares or share options which are subject to a performance condition are not included. Deferred bonus shares and options which are vested but unexercised are also not included.

Where the shareholding requirement is not met within five years of appointment the Committee retains the discretion, dependent on circumstances, to either extend the time period or approve, on a temporary basis, a lower shareholding.

Based on the share price on 28 September 2013 of 409.7pence, Alistair Darby's shareholding was 0.604 times his basic annual salary and Tim Jones' shareholding was 0.09 (2012 0.03) times his basic annual salary.

The interests of the Directors in the ordinary shares of the Company as at 28 September 2013 and at 29 September 2012 (or date of appointment if later) were as set out below.

	Shares without performance conditions		Shares with performance conditions		Unvested options/ awards without performance conditions		Unvested options/ awards with performance conditions		Vested but unexercised options		Total shares/options	
	28/09/2013	29/09/2012[a]	28/09/2013	29/09/2012[a]	28/09/2013	29/09/2012[a]	28/09/2013	29/09/2012[a]	28/09/2013	29/09/2012[a]	28/09/2013	29/09/2012[a]
Executive Directors												
Alistair Darby	**77,423**	–	**–**	–	**–**	–	**307,210[d]**	–	**–**	–	**384,633**	–
Tim Jones	**9,048[b]**	4,704[b]	**–**	–	**11,466[c]**	17,986[c]	**169,846[d]**		**–**	–	**190,360**	22,690
Former Director												
Doug Evans	**912[e]**	769	**–**	–	**8,241[e]**	8,241	**–**	–	**–**	–	**9,153[e]**	9,010
Non-Executive Directors												
Bob Ivell	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Ron Robson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Stewart Gilliland	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Eddie Irwin	**10,000**	–	**–**	–	**–**	–	**–**	–	**–**	–	**10,000**	–
Douglas E McMahon	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Colin Rutherford	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Imelda Walsh	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**97,383**	**5,473**	**–**	**–**	**19,707**	**26,227**	**477,056**		**–**		**594,146**	**31,700**

a. Or date of appointment if later.
b. Includes Free Shares and Partnership Shares granted under the SIP, as detailed on page 61.
c. Options granted under the Sharesave as detailed in the table on page 61 and any award granted under the STDIP.
d. Options granted under the PRSP as detailed in the table on page 60.
e. At 31 January 2013, the date on which Mr Evans left the employment of the Group.

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

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

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

Under the Partnership Share element of the Share Incentive Plan Tim Jones has acquired 58 shares of the Company between the end of the financial year and one month prior to the Notice of the Annual General Meeting.

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

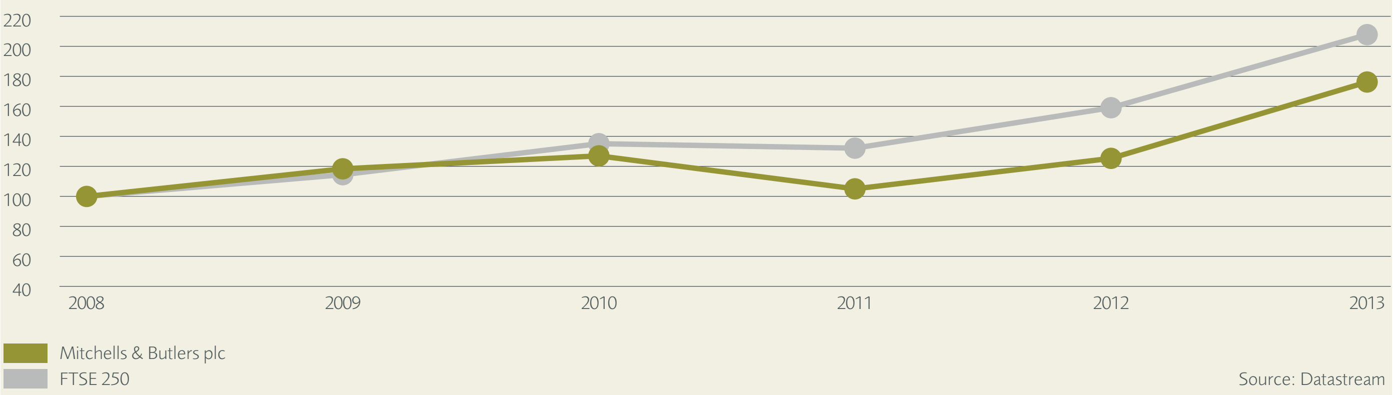
The market price per share on 28 September 2013 was 409.7 pence and the range during the year to 28 September 2013 was 289.5 pence to 460.0 pence per share.

The Executive Directors as a group beneficially own less than 0.02% of the Company's shares.

TSR performance graph

The Company's TSR performance for the last five 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 26 September 2008 to 28 September 2013 (rebased to 100)



CEO five-year earnings history

Year ended	26/09/09	25/09/10	24/09/11	29/09/12	28/09/13
Alistair Darby					
Single figure remuneration (£000)	–	–	–	–	982[a]
Annual bonus outcome (% of max)	–	–	–	–	71.0
LTIP vesting outcome (% of max)	–	–	–	–	n/a[b]
Bob Ivell					
Single figure remuneration (£000)	–	–	–	557	69[c]
Annual bonus outcome (% of max)	–	–	–	n/a[d]	n/a[d]
LTIP vesting outcome (% of max)	–	–	–	n/a[d]	n/a[d]
Jeremy Blood					
Single figure remuneration (£000)	–	–	397	50	–
Annual bonus outcome (% of max)	–	–	–[e]	n/a[d]	–
LTIP vesting outcome (% of max)	–	–	n/a[d]	–	–
Adam Fowle					
Single figure remuneration (£000)	237[f]	1,315	483[g]	–	–
Annual bonus outcome (% of max)	–	87.6	16.0	–	–
LTIP vesting outcome (% of max)	20.7	16.2	24.2	–	–
Tim Clarke					
Single figure remuneration (£000)	385	–	–	–	–
Annual bonus outcome (% of max)	–	–	–	–	–
LTIP vesting outcome (% of max)	–	–	–	–	–

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. No long-term incentive plan which is due to vest in respect of the year ended 28 September 2013.
c. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.
d. The Director was not a participant in the plan.
e. 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.
f. Adam Fowle was appointed Acting CEO from 21 May 2009 and as CEO from 3 August 2009. Earnings disclosed above are from the period from 21 May 2009.
g. Earnings disclosed are to 15 March 2011 when Mr Fowle stepped down as CEO.

Change in remuneration of the CEO

	Salary £			Taxable Benefits £			Bonus £		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
CEO	**582,534**	606,467	**(4.0)**	**14,445**	–	**100**	**364,580**	–	**100**
Salaried Employees	**30,419**	30,025	**1.3**	**236**	208	**13.5**	**3,364**	2,558	**31.5**

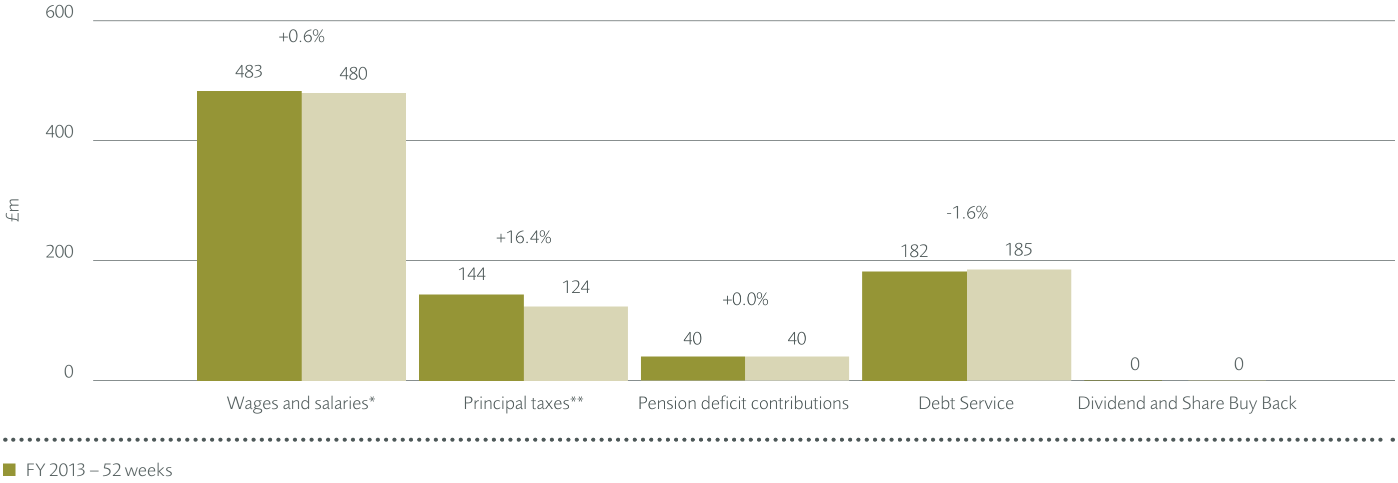
The FY 2013 CEO figures shown are the combined earnings of Bob Ivell whilst Executive Chairman, and Alistair Darby, from the date he was appointed to the Board. The percentage change in salary, benefits and bonus is compared to the FY 2012 combined earnings of Bob Ivell whose role was that of Executive Chairman from 26 October 2011 and Jeremy Blood who until 26 October 2011 held the role of Interim Chief Executive. The CEO figures do not include LTIP awards or pension benefits as disclosed in the single figure table.

The change in CEO remuneration is compared to the change in remuneration of all full time salaried employees, which includes General Managers, Assistant Managers and Kitchen Managers employed in our businesses. Salaried employees with part year service in either FY 2012 or FY 2013 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, are largely part time and do not participate in any bonus plans.

Report on Directors' remuneration

continued

Relative importance of spend on pay



* From Note 6, Accounts. Excludes share-based payments.
** Business Rates, Corporation Tax, Employer's NI.

Figures shown for wages and salaries are all earnings, including bonus. In FY 2013 £2.34m (0.5%) was paid to Executive and Non-Executive Directors (2012 £1.58m (0.3%)).

Implementation of Remuneration Policy in Financial Year 2014
Executive Directors' Salary Review
Salaries are next due to be reviewed with effect from 1 January 2014. From this date Alistair Darby's salary will be increased to £535,500 (2%) and Tim Jones' salary will be increased to £420,250 (2%).

Annual performance bonus
The performance measure and vesting schedule are unchanged from those which applied in FY 2013. These are set out on page 52. On-target performance is defined as performance in line with the Company's annual budget. The actual EPS value is not disclosed in advance as the Committee considers that such disclosure may be advantageous to competitors and as a result could damage the Company's commercial interests. The EPS target and performance against it will be disclosed in the Annual Report in respect of the year in which the award vests. There is also no change to the deferred share element of the annual performance bonus (STDIP) for FY 2014.

Long Term Incentive Plans
An award is due to be made under the PRSP on 28 November 2013. The Committee has determined that the performance measures and targets applicable to the 2014 award will be unchanged from those which applied in 2013. These are set out on page 60. The grant levels are also unchanged from those which applied in 2013.

All other aspects of the remuneration structure as intended to apply in respect of financial year 2014 are as set out in the remuneration policy table on pages 52 to 54.

Non-Executive Directors' Fee Review
Non-Executive Directors' fees are next due to be reviewed on 1 January 2014. As three of the Non-Executive Directors have only recently been appointed, the Board has determined that it would not be appropriate to review the fee structure at this time. The Board may choose to review Non-Executive Directors' fees later in FY 2014 as the newly appointed Directors become more established in their roles.

The fees applicable to the Chairman and Deputy Chairman will next be reviewed in January 2015.

Approved by the Board

Imelda Walsh
Chair of the Remuneration Committee
25 November 2013

Financial statements

In this section:

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

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

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 28 September 2013 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group and Company balance sheets, the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group cash flow statement, and the related notes 1 to 29 on the Group financial statements, and the related notes 1 to 10 on the Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern
As required by the Listing Rules we have reviewed the Directors' statement on page 40 that the Group is a going concern.

We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union; and
- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our application of materiality
We determined planning materiality for the Group to be £9m, which is approximately 5% of pre-tax profit before exceptional items and other adjustments including impairment. These items are excluded due to their volatility and this is consistent with the Group's internal and external reporting to facilitate a better understanding of the underlying trading performance. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £180,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit and our assessment of risks of material misstatement
Our Group audit scope focused on the UK retail operating business and UK property business, both of which were subject to a full scope audit for the 52 weeks ended 28 September 2013 and are managed from the same location. The UK based divisions account for 100% of the Group's non-current assets and 97% of the Group's revenue. Audits of these divisions are performed using a local statutory materiality which is lower than Group materiality.

The assessed risks of material misstatement and the way in which we scoped our responses are described below. These are the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

Audit risks and key judgements	Our response
The key assumptions and estimates used in the valuation of the pub estate. The market value is determined with reference to judgemental factors such as future projected income levels and comparable market transactions.	We worked with our property valuation specialists and management's external advisers, CBRE, to challenge the methodology as described in note 14 to the financial statements and underlying assumptions to the pub estate valuation. This included assessing the appropriateness of any changes to assumptions since the prior period and benchmarking valuations to comparable market transactions where data was available. We also tested the integrity of the data used in the valuations by agreeing a sample to source data and reviewed post period end trading to verify that it supported the valuations as at 28 September 2013.
The value of the tax provisions recorded in respect of a number of uncertain tax positions which require judgements in respect of the likely outcome of negotiations with and enquiries from tax authorities.	We utilised our tax specialists to appraise the likely outcome of technical tax treatments and reviewed correspondence with the revenue authorities to assess the reasonableness of the provisions made.
The actuarial assumptions used in the measurement of the Group's net pension liability which are inherently judgemental, such as long-term interest rates and inflation.	We tested the actuarial assumptions used to calculate the net pension liability using our actuarial specialists to perform a critical assessment of the key assumptions as described in note 8 to the financial statements with reference to comparable market data. We considered whether the restatement of the prior period end pension deficit, as described in note 8 to the financial statements, appropriately applied the recent guidance on additional contributions as issued by the Financial Reporting Review Panel.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters. The Audit Committee's consideration of these judgements is set out on page 48.

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

- the information given in the Directors' report and the Strategic and business review for the 52 week period for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Report on Directors' remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

We have nothing to report in respect of these matters.

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

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

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

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

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

Respective responsibilities of Directors and auditor
As explained more fully in the Directors' responsibilities statement set out on page 41 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements, in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Stephen Griggs
(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 November 2013

Group income statement

For the 52 weeks ended 28 September 2013

		2013 52 weeks			2012 53 weeks		
	Notes	Before exceptional items and other adjustments £m	Exceptional items and other adjustments[a] £m	Total £m	Before exceptional items and other adjustments £m	Exceptional items and other adjustments[a] £m	Total £m
Revenue	3	1,895	–	1,895	1,889	–	1,889
Operating costs before depreciation, amortisation, movements in the valuation of the property portfolio and impairment of goodwill	4, 9	(1,473)	–	(1,473)	(1,474)	(20)	(1,494)
EBITDA[b]		422	–	422	415	(20)	395
Depreciation, amortisation, movements in the valuation of the property portfolio and impairment of goodwill	4, 9	(110)	(29)	(139)	(111)	(52)	(163)
Operating profit/(loss)	3	312	(29)	283	304	(72)	232
Finance costs	10	(130)	–	(130)	(140)	–	(140)
Finance revenue	10	2	–	2	2	–	2
Net pensions finance charge	8, 9, 10	–	(5)	(5)	–	(11)	(11)
Profit/(loss) before tax		184	(34)	150	166	(83)	83
Tax (expense)/credit	9, 11	(41)	26	(15)	(41)	28	(13)
Profit for the period		143	(8)	135	125	(55)	70
Earnings per ordinary share							
Basic	12	34.9p		32.9p	30.5p		17.1p
Diluted	12	34.7p		32.7p	30.2p		17.0p

a. Exceptional items and other adjustments are explained in note 1 and analysed in note 9.
b. Earnings before interest, tax, depreciation, amortisation, movements in the valuation of the property portfolio and impairment of goodwill.

The notes on pages 73 to 98 form an integral part of these financial statements.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 28 September 2013

	Notes	2013 52 weeks £m	2012 53 weeks restated* £m
Profit for the period		**135**	70
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain on revaluation of the property portfolio	14	**60**	10
Actuarial losses on defined benefit pension schemes	8	**(65)**	(81)
Movement in pension liability recognised due to minimum funding requirements	8	**57**	78
Tax relating to items not reclassified	11	**17**	20
		69	27
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**1**	(1)
Cash flow hedges:			
– Gains/(losses) arising during the period	19	**53**	(103)
– Reclassification adjustments for losses included in profit or loss	19	**47**	54
Tax relating to items that may be reclassified	11	**(30)**	6
		71	(44)
Other comprehensive income/(expense) after tax		**140**	(17)
Total comprehensive income for the period		**275**	53

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

The notes on pages 73 to 98 form an integral part of these financial statements.

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Group balance sheet

28 September 2013

	Notes	2013 £m	2012 restated* £m	2011 restated* £m
Assets				
Goodwill and other intangible assets	13	**5**	5	10
Property, plant and equipment	14	**3,895**	3,848	3,848
Lease premiums		**2**	1	6
Deferred tax asset	20	**105**	150	149
Derivative financial instruments	19	**5**	4	18
Total non-current assets		**4,012**	4,008	4,031
Inventories	15	**24**	26	25
Trade and other receivables	16	**72**	56	70
Other cash deposits	26	**25**	25	50
Cash and cash equivalents	26	**340**	311	306
Total current assets		**461**	418	451
Total assets		**4,473**	4,426	4,482
Liabilities				
Pension liabilities	8	**(40)**	(40)	(40)
Trade and other payables	17	**(263)**	(265)	(298)
Current tax liabilities		**(17)**	(28)	(17)
Borrowings	18	**(57)**	(53)	(49)
Derivative financial instruments	19	**(46)**	(45)	(44)
Total current liabilities		**(423)**	(431)	(448)
Pension liabilities	8	**(208)**	(236)	(263)
Other payables	17	**(12)**	(12)	(12)
Borrowings	18	**(2,075)**	(2,133)	(2,197)
Derivative financial instruments	19	**(182)**	(280)	(235)
Deferred tax liabilities	20	**(345)**	(382)	(429)
Long-term provisions	21	**(9)**	(9)	(6)
Total non-current liabilities		**(2,831)**	(3,052)	(3,142)
Total liabilities		**(3,254)**	(3,483)	(3,590)
Net assets		**1,219**	943	892
Equity				
Called up share capital	22, 24	**35**	35	35
Share premium account	24	**23**	21	21
Capital redemption reserve	24	**3**	3	3
Revaluation reserve	24	**869**	793	768
Own shares held	24	**(4)**	(3)	(5)
Hedging reserve	24	**(187)**	(257)	(214)
Translation reserve	24	**12**	11	12
Retained earnings		**468**	340	272
Total equity		**1,219**	943	892

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

The notes on pages 73 to 98 form an integral part of these financial statements.

Signed on behalf of the Board on 25 November 2013

Alistair Darby
Tim Jones

Group statement of changes in equity

For the 52 weeks ended 28 September 2013

	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 2011	35	21	3	768	(5)	(214)	12	472	1,092
Prior period restatement*	–	–	–	–	–	–	–	**(200)**	**(200)**
At 24 September 2011 (restated*)	**35**	**21**	**3**	**768**	**(5)**	**(214)**	**12**	**272**	**892**
Profit for the period	–	–	–	–	–	–	–	**70**	**70**
Other comprehensive income/(expense)*	–	–	–	**25**	–	**(43)**	**(1)**	**2**	**(17)**
Total comprehensive income/(expense)	–	–	–	**25**	–	**(43)**	**(1)**	**72**	**53**
Purchase of own shares	–	–	–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	3	–	–	(2)	1
Charge in respect of share-based payments	–	–	–	–	–	–	–	(1)	(1)
Tax on share-based payments	–	–	–	–	–	–	–	(1)	(1)
At 29 September 2012 (restated*)	35	21	3	793	(3)	(257)	11	340	943
Profit for the period	–	–	–	–	–	–	–	**135**	**135**
Other comprehensive income/(expense)	–	–	–	**76**	–	**70**	**1**	**(7)**	**140**
Total comprehensive income/(expense)	–	–	–	**76**	–	**70**	**1**	**128**	**275**
Share capital issued	–	2	–	–	–	–	–	–	2
Purchase of own shares	–	–	–	–	(5)	–	–	–	(5)
Release of own shares	–	–	–	–	4	–	–	(2)	2
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
At 28 September 2013	**35**	**23**	**3**	**869**	**(4)**	**(187)**	**12**	**468**	**1,219**

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

Group cash flow statement

For the 52 weeks ended 28 September 2013

	Notes	2013 52 weeks £m	2012 53 weeks £m
Cash flow from operations	25	**371**	347
Cash flow from operating exceptional items		**(2)**	(17)
Interest paid		**(128)**	(131)
Interest received		**2**	2
Tax paid		**(31)**	(25)
Net cash from operating activities		**212**	176
Investing activities			
Purchases of property, plant and equipment		**(126)**	(147)
Purchases of intangible assets		**(1)**	–
Payment of lease premium		**(1)**	–
Proceeds from sale of property, plant and equipment		**1**	3
Transfers from other cash deposits		**–**	25
Net cash used in investing activities		**(127)**	(119)
Financing activities			
Issue of ordinary share capital		**2**	–
Purchase of own shares		**(5)**	(1)
Proceeds on release of own shares		**2**	1
Repayment of principal in respect of securitised debt	18	**(55)**	(52)
Net cash used in financing activities		**(56)**	(52)
Net increase in cash and cash equivalents		**29**	5
Cash and cash equivalents at the beginning of the period		**311**	306
Cash and cash equivalents at the end of the period	26	**340**	311

Cash and cash equivalents are defined in note 1.

The notes on pages 73 to 98 form an integral part of these financial statements.

Notes to the financial statements

For the 52 weeks ended 28 September 2013

1. Accounting policies

General information

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

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

Basis of preparation

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 28 September 2013 includes 52 trading weeks and the period ended 29 September 2012 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.

Restatement

Recent guidance from the Financial Reporting Review Panel (FRRP) has clarified the treatment of a schedule of contributions under section 227 of the Pension Act 2004 in relation to the recognition of pension liabilities. As a result the Group has included the schedule of contributions as a minimum funding requirement within the meaning of IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and accounts for this liability within the pension deficit for the period ended 28 September 2013.

To reflect this conclusion, the Group has restated the comparative amounts for the periods ended 29 September 2012 and 24 September 2011 which has the impact of increasing the pension liability by £188m and £266m respectively; increasing the deferred tax asset by £43m and £66m; and reducing brought forward retained earnings (through a reduction in other comprehensive income) by the net amount of £145m and £200m. There is no change to profit before tax and no cash impact.

Further details are provided in note 8.

Basis of consolidation

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

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

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 Company overview and Strategic and business review on pages 7 to 34. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the review.

In addition, note 19 to the financial statements 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 18 to the financial statements, the Group's financing is based upon securitised debt.

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

Intangible assets

Goodwill

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

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.

Property, plant and equipment

The Group revalues the majority of its freehold and long leasehold licensed properties to fair value, for accounting purposes. Short leasehold properties, unlicensed properties, fixtures and fittings are held at deemed cost less depreciation and impairment provisions. Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower. The revaluation includes significant accounting judgements in respect of valuation multiples, which are determined via third party inspection of 20% of the sites such that all sites are individually valued approximately every five years; and assumptions made in determining fair maintainable trade. The Directors believe that their estimates, which are based on the current state of the UK property market, are appropriate. Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are

1. Accounting policies continued

reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

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

Information technology equipment	3-7 years
Fixtures and fittings	3-20 years

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

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

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

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

Operating leases

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

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

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

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

Inventories

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

Financial instruments

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

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

Derecognition of financial assets and liabilities

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits. For the purposes of the cash flow statement, cash and cash equivalents are net of bank overdrafts that are repayable on demand.

Trade and other payables

Trade and other payables are recognised at original cost.

Borrowings

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Derivative financial instruments and hedge accounting

The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied where the necessary criteria under IAS 39 Financial Instruments: Recognition and Measurement are met. Derivative financial instruments are not used for trading or speculative purposes.

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

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

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

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

Equity instruments

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

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.

1. Accounting policies continued

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

Revenue

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

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

Operating profit

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

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 charged or credited directly to equity, in which case the income tax is also charged or credited to equity.

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

Assessing the outcome of uncertain tax positions requires judgements to be made in relation to the likely outcome of negotiations with and enquiries from tax authorities and, in some cases, an assessment of the likely outcome of other case law.

Pension obligations

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

The actuarial liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which is significant to the balance sheet valuation. These are set out and discussed in note 8 and include judgements in relation to long-term interest rates, inflation, investment returns and longevity of current and future pensioners.

Following recent guidance from the Financial Reporting Review Panel, the total 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.

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

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

Share-based compensation

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

Own shares

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

Provisions

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

Dividends

Dividends proposed by the Board but unpaid at the 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. No dividends were proposed or paid in either the current or the prior period.

Adjusted profit

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes exceptional items and other adjustments including the related tax on these items. This adjusted information is disclosed to allow a better understanding of the underlying trading performance of the Group and is consistent with the Group's internal management reporting. Exceptional items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties and restructuring costs (see note 9). Other adjustments excluded from adjusted profit and earnings per share comprise the IAS 19 net pensions finance charge which can be volatile, as it is calculated with reference to long-term interest rates and represents a non-cash charge.

Recent accounting developments

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these financial statements for the first time.

Amendments to IAS 1 Presentation of Financial Statements (amended June 2011) – increased the required level of disclosure within the statement of other comprehensive income. The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to profit or loss and items that will be reclassified subsequently to profit or loss in accordance with the respective IFRS standard to which the item relates. The financial statements have also been amended to analyse tax on the same basis (see note 11). The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income have been restated to reflect the change.

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date after the date of these financial statements. They have not been adopted early by the Group and are not expected to have any material impact.

IAS 19 Employee Benefits (revised June 2011) – mandates the use of the IAS 19 discount rate in calculating the expected return on pension scheme assets rather than using the return that might be expected from a balanced portfolio of equities, bonds and other assets. This will be effective for the Group in 2013/14.

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

IFRS 7 (amended) Disclosures – Offsetting Financial Assets and Financial Liabilities – increases disclosure requirements where netting arrangements are in place for financial assets and financial liabilities.

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

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

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except IFRS 13 which will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures. Beyond this, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

Exchange rates

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.19 (2012 £1 = €1.23), 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 = €1.19 (2012 £1 = €1.26) and £1 = $1.61 (2012 £1 = $1.61) respectively.

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

- property, plant and equipment – assumptions are made in the valuation of properties in relation to fair maintainable trading levels and the property market. Assumptions are also made regarding assets' useful lives and residual value in relation to plant and equipment (see accounting policy on property, plant and equipment and note 14);
- asset impairments – assumptions are made in relation to the value in use calculation, including projected cash flows, future growth rates and the appropriate discount rate to apply to these (see accounting policies on property, plant and equipment and goodwill);
- exceptional items and other adjustments – determination of items which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group (see accounting policy on adjusted profit and note 9);
- pensions – actuarial assumptions in respect of the defined benefit pension scheme liability include judgements in relation to long-term interest rates, inflation, investment returns and longevity of current and future pensioners (see accounting policy on pension obligations and note 8); and
- taxation – assessing the outcome of uncertain tax positions requires judgements to be made in relation to the likely outcome of negotiations with and enquiries from tax authorities and in some cases an assessment of the likely outcome of other case law (see accounting policy on tax and notes 11, 17 and 20).

3. Segmental analysis

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

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

	Retail operating business		Property business		Total	
	2013 52 weeks £m	2012 53 weeks £m	**2013 52 weeks £m**	2012 53 weeks £m	**2013 52 weeks £m**	2012 53 weeks £m
Revenue[a]	**1,895**	1,889	**–**	–	**1,895**	1,889
EBITDA pre-exceptionals	**230**	220	**192**[b]	195[b]	**422**	415
Operating profit pre-exceptionals	**133**	123	**179**	181	**312**	304
Exceptional items and other adjustments (note 9)					**(29)**	(72)
Operating profit					**283**	232
Net finance costs					**(133)**	(149)
Profit before tax					**150**	83
Tax expense					**(15)**	(13)
Profit for the period					**135**	70

a. Revenue includes other income of £7m (2012 £7m) in respect of franchise operations.
b. The EBITDA pre-exceptionals of the property business relates entirely to rental income received from the retail operating business.

Geographical segments

Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

	UK		Germany		Total	
	2013 52 weeks £m	2012 53 weeks £m	**2013 52 weeks £m**	2012 53 weeks £m	**2013 52 weeks £m**	2012 53 weeks £m
Revenue – sales to third parties	**1,837**	1,837	**58**	52	**1,895**	1,889
Segment non-current assets[a]	**3,895**	3,849	**7**	5	**3,902**	3,854

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

4. Operating costs

	2013 52 weeks £m	2012 53 weeks £m
Raw materials and consumables recognised as an expense	**530**	547
Changes in inventory of finished goods and work in progress	**2**	(1)
Employee costs (note 6)	**525**	519
Hire of plant and machinery	**18**	17
Property operating lease costs	**49**	52
Other costs	**349**	360
Operating costs before depreciation, amortisation, movements in the valuation of the property portfolio and impairment of goodwill	**1,473**	1,494
Depreciation of property, plant and equipment (note 14)	**109**	111
Amortisation of intangible assets (note 13)	**1**	–
Impairment of goodwill (note 13)	**–**	5
Net movement in the valuation of the property portfolio (note 9)	**29**	47
Depreciation, amortisation, movement in the valuation of the property portfolio and impairment of goodwill	**139**	163
Total operating costs	**1,612**	1,657

5. Auditor's remuneration

	2013 52 weeks £m	2012 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	0.2	0.2
Total audit fees	0.3	0.3
Other fees to auditors:		
– other services	0.1	0.1
Total non-audit fees	0.1	0.1

Auditor remuneration of £0.3m was paid in the UK and £0.1m was paid in Germany.

6. Employees and Directors

	2013 52 weeks £m	2012 53 weeks £m
Costs		
Wages and salaries	483	480
Share-based payments (note 7)	2	–
Total wages and salaries	485	480
Social security costs	35	34
Pensions (note 8)	5	5
Total employee costs	525	519

The average number of employees including part-time employees was 40,476 pub and 849 support (2012 40,310 pub and 868 support).

Information regarding key management personnel is included in note 29. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 50 to 64.

7. Share-based payments

The net charge recognised for share-based payments in the period was £2m (2012 £nil, following the reversal of prior year provision for the Long Term Incentive Plan of £3.2m).

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

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

Details of schemes in operation during the period are shown below:

Sharesave Plan

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

Share Incentive Plan

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

Short Term Deferred Incentive Plan

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

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

7. Share-based payments continued

Performance Restricted Share Plan

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

Vesting is conditional upon the achievement of a Total Shareholder Return (TSR) performance condition and an adjusted earnings per share growth performance condition.

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

Executive Share Option Plan

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

The vesting period for these options is three years from grant, followed by a seven year exercise period. The latest possible exercise date for any of these options outstanding at 28 September 2013, is 24 May 2015.

Long-Term Incentive Plan

An award was made under the Long-Term Incentive Plan (LTIP) on 30 July 2010 with participants receiving a conditional right to receive Mitchells & Butlers plc shares with a value determined by their percentage of the LTIP pool. Overall vesting of awards was dependent upon the achievement of an adjusted earnings per share underpin whereby the award would be capable of vesting only if adjusted EPS growth from financial year 2010 to 2013 was at least equal to RPI plus 12 percentage points. If the EPS condition was not met no awards would vest.

During 2012 the Directors believed that it was unlikely that the performance condition would be achieved and a provision of £3.2m was released. This award was subsequently cancelled without payment.

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

2013	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo and Binomial	Black-Scholes
Weighted average share price	349.7p	370.9p
Exercise price[a]	–	309.0p
Expected dividend yield[b]	–	–
Risk-free interest rate	0.97%	1.03%
Volatility[c]	3.4%	31.4%
Expected life (years)[d]	2.60	3.94

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

a. The exercise price for the Performance Restricted Share Plan is £1 per participating employee.
b. The expected dividend yield for the Sharesave Plan and LTIP has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 34. 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 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. The assumptions set out above are therefore not relevant to these schemes.

Movements in the awards and options outstanding under these schemes for the periods ended 28 September 2013 and 29 September 2012 are as follows:

	Short Term Deferred Incentive Plan Number of shares thousands	Performance Restricted Share Plan Number of shares thousands	Share Incentive Plan Number of shares thousands
Outstanding at 24 September 2011	72	5,444	1,388
Granted	13	–	401
Exercised	(40)	(577)	(166)
Forfeited	–	(2,568)	(70)
Expired	(20)	(34)	–
Outstanding at 29 September 2012	25	2,265	1,553
Granted	–	1,598	265
Exercised	(18)	(563)	(177)
Forfeited	–	(1,533)	(69)
Expired	–	(8)	–
Outstanding at 28 September 2013	**7**	**1,759**	**1,572**
Fair value of options granted during the period (pence)[a]			
At 28 September 2013	**–**	**213.9**	**370.9**
At 29 September 2012	223.9	–	249.3
Weighted average remaining contract life (years)			
At 28 September 2013	**0.2**	**3.8**	**–[b]**
At 29 September 2012	0.4	2.1	–[b]

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

	Executive Share Option Plan		Sharesave Plan	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 24 September 2011	2,323	285.7	4,160	237.3
Granted	–	–	1,294	182.0
Exercised	(312)	238.2	(120)	239.2
Forfeited	–	–	(757)[a]	243.2
Expired	(501)	316.7	(478)	270.8
Options outstanding at 29 September 2012	1,510	285.3	4,099	214.8
Granted	–	–	759	309.0
Exercised	(694)	261.3	(903)	196.5
Forfeited	–	–	(409)[a]	208.8
Expired	(84)	326.1	(108)	336.5
Options outstanding at 28 September 2013	**732**	**303.3**	**3,438**	**237.3**
Options exercisable				
At 28 September 2013	**732**	**303.3**	**–**	**–**
At 29 September 2012	1,510	285.3	–	–
Fair value of options granted during the period (pence)[b]				
At 28 September 2013		**–**		**124.6**
At 29 September 2012		–		86.8
Range of prices (pence) of options outstanding				
At 28 September 2013		**252.2 – 326.1**		**182.0 – 309.0**
At 29 September 2012		219.0 – 326.1		182.0 – 259.0

a. The number of forfeited shares in the period includes 219,464 (2012 526,886) cancellations.
b. Weighted average fair value based on the date of grant has been shown for the Sharesave Plan.

The weighted average share price during the period was 355.3p (2012 252.1p).

7. Share-based payments continued

Summarised information about options outstanding at 28 September 2013 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number of shares outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number of shares exercisable thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[a]	1,759	3.8	– [a]	199	0.9	– [a]
Executive Share Option Plan						
252.5	226	0.7	252.5	226	0.7	252.5
326.1	506	1.7	326.1	506	1.7	326.1
	732	1.3	303.3	732	1.3	303.3
Sharesave Plan						
259.0	144	0.5	259.0	–	–	–
196.0	400	1.5	196.0	–	–	–
257.0	455	1.1	257.0	–	–	–
253.0	613	2.1	253.0	–	–	–
182.0	1,071	2.9	182.0	–	–	–
309.0	755	3.9	309.0	–	–	–
	3,438	2.5	237.3	–	–	–

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

8. Pensions

Background

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. On 13 March 2011, the defined benefit plan closed to future accrual. At the same time Mitchells & Butlers plc implemented a revised defined contribution benefit structure. 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, from 1 January 2013 Mitchells & Butlers plc implemented a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols all eligible workers into a Qualifying Workplace Pension Plan.

Restatement in relation to IFRIC 14 and minimum funding requirements

Following recent guidance from the FRRP regarding the treatment of a schedule of contributions in relation to a minimum funding requirement under IFRIC 14, the Group has reconsidered the appropriate accounting treatment for its pension funding obligations. As a result the Group now includes the schedule of contributions within the overall pension liability recorded at the period end.

The Group has restated the comparative amounts for the periods ended 29 September 2012 and 24 September 2011 which has the impact of increasing the pension liability by £188m and £266m respectively; increasing the deferred tax asset by £43m and £66m; and reducing brought forward retained earnings (through a reduction in other comprehensive income) by the net amount of £145m and £200m. The tables below provide a summary of the amounts previously reported, the adjustments made and the restated amounts:

Group balance sheet	2012 £m	2011 £m
Actuarial deficit (as reported)	(88)	(37)
Additional liability recognised due to minimum funding requirements	(188)	(266)
Net liability (restated)	(276)	(303)
Associated deferred tax asset		
Deferred tax relating to retirement benefit obligations (as reported)	20	9
Additional deferred tax asset recognised due to minimum funding requirements	43	66
Deferred tax relating to retirement benefit obligations (restated) (note 20)	63	75

Group statement of comprehensive income	2012 53 weeks £m	2011 52 weeks £m
Actuarial (loss)/gain recognised (as reported)	(81)	84
Movement in pension liability recognised due to minimum funding requirements	78	(266)
Total movement in pension liability (restated)	(3)	(182)
Tax relating to actuarial (loss)/gain (as reported)	16	(25)
Tax relating to movement in pension liability recognised due to minimum funding requirements	(23)	66
Total tax relating to movement in pension liability (restated)	(7)	41
Actuarial (loss)/gain recognised after tax (as reported)	(65)	59
Movement in pension liability recognised due to minimum funding requirements after tax	55	(200)
Total movement in pension liability recognised after tax (restated)	(10)	(141)

Measurement of scheme assets and liabilities – IAS 19

The valuations used for IAS 19 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2010 and updated by the schemes' independent qualified actuaries to 28 September 2013. Scheme assets are stated at market value at 28 September 2013 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds (see 'discount rate' assumption in the table below).

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

Principal financial assumptions

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

	2013	2012
Pensions increases	**3.3%**	2.8%
Discount rate	**4.4%**	4.3%
Inflation rate	**3.4%**	2.8%

The discount rate applied to the pension schemes' liabilities is a significant driver of the net balance sheet valuation of the schemes and is subject to a high degree of judgement and complexity. It is estimated that a 0.1% increase or decrease in the discount rate used would, in isolation, reduce or increase the actuarial deficit by approximately £34m (2012 £32m, 2011 £26m), with no material impact on the income statement charge. A similar increase or decrease of 0.1% in the inflation rate would, in isolation, increase or reduce the actuarial deficit by approximately £30m (2012 £30m, 2011 £24m).

8. Pensions continued

Mortality assumptions

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

	2013		2012	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	**20.3**	**24.6**	20.3	24.6
Male member aged 45 (life expectancy at 65)	**23.0**	**26.4**	23.0	26.4
Female member aged 65 (current life expectancy)	**23.1**	**26.0**	23.1	26.0
Female member aged 45 (life expectancy at 65)	**25.8**	**28.0**	25.8	28.0

Amounts recognised in respect of defined benefit schemes

The long-term rates of return on assets at 28 September 2013 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2014 financial year. The 2012 rates shown are used in calculating the 2013 expected return.

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 4.2% (2012 4.5%, 2011 5.2%). The actual investment return achieved on the scheme assets over the period was 9.2% (2012 11.2%, 2011 5.8%), which represented a gain of £145m (2012 £162m, 2011 £79m).

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

	2013		2012		2011	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value[a] £m	Long-term rates of return expected %	Value[a] £m
Equities	**7.4**	**545**	6.9	488	6.9	420
Bonds	**3.6**	**1,120**	3.2	1,058	3.7	999
Other	**5.0**	**67**	4.9	64	5.5	53
Fair value of assets		**1,732**		1,610		1,472
Present value of scheme liabilities		**(1,849)**		(1,698)		(1,509)
Actuarial deficit in the schemes		**(117)**		(88)		(37)
Additional liability recognised due to minimum funding requirements		**(131)**		(188)		(266)
Total pension liability		**(248)**		(276)		(303)
Associated deferred tax asset		**50**		63		75

a. Restated, further details are provided in the narrative on page 73.

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	2013 52 weeks £m	2012 53 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	**(5)**	(5)
Charge to operating profit	**(5)**	(5)
Finance income:		
Expected return on pension scheme assets	**67**	66
Interest on pension scheme liabilities	**(72)**	(77)
Net finance charge in respect of pensions	**(5)**	(11)
Total charge	**(10)**	(16)

Group statement of comprehensive income	2013 52 weeks £m	2012 53 weeks restated* £m
Actual return less expected return on pension scheme assets	78	96
Changes in assumptions underlying the present value of the scheme liabilities	(143)	(177)
Actuarial loss recognised	(65)	(81)
Movement in pension liability recognised due to minimum funding requirements	57	78
Total movement in pension liability recognised in other comprehensive income	(8)	(3)

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

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

	Scheme assets		
	2013 £m	2012 £m	2011 £m
Fair value of scheme assets at beginning of period	1,610	1,472	1,405
Expected return on plan assets	67	66	74
Employee contributions	–	–	1
Employer contributions	41	41	44
Benefits paid	(64)	(65)	(57)
Actuarial gain recognised	78	96	5
At end of period	1,732	1,610	1,472

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

	Defined benefit obligation		
	2013 £m	2012 £m	2011 £m
Present value of defined benefit obligation at beginning of period	(1,698)	(1,509)	(1,548)
Interest cost on benefit obligations	(72)	(77)	(79)
Current service cost	–	–	(4)
Exceptional pension charge (curtailment)	–	–	(13)
Employee contributions	–	–	(1)
Benefits paid	64	65	57
Actuarial (loss)/gain recognised	(143)	(177)	79
At end of period[a]	(1,849)	(1,698)	(1,509)

a. The defined benefit obligation comprises £22m (2012 £19m, 2011 £17m) relating to the MABETUS unfunded plan and £1,827m (2012 £1,679m, 2011 £1,492m) relating to the funded plans.

History of experience gains and losses	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets					
Amount (£m)	78	96	5	65	10
Percentage of scheme assets	4%	6%	0%	5%	1%
Experience gains/(losses) on scheme liabilities					
Amount (£m)	(20)	–	–	34	–
Percentage of the present value of the scheme liabilities	(1)%	–	–	2%	–
Total amount recognised in the Group statement of comprehensive income[a]					
Amount (£m)	(65)	(81)	84	(43)	(174)
Percentage of the present value of the scheme liabilities	(4)%	(5)%	6%	(3)%	(12)%

a. Before movement in pension liability recognised due to minimum funding requirements.

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of comprehensive income is a £251m loss (2012 £186m loss, 2011 £105m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of the schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 26 September 2004.

Funding valuation and future funding obligations

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

In the 52 weeks ended 28 September 2013 the Group paid £5m (2012 £5m) in respect of the defined contribution arrangements, with £nil (2012 £nil) outstanding as at the period end.

At 28 September 2013 the MABPP owed £1m (2012 £2m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 16.

Notes to the financial statements

For the 52 weeks ended 28 September 2013 continued

9. Exceptional items and other adjustments

	Notes	2013 52 weeks £m	2012 53 weeks £m
Operating exceptional items			
Movement in the valuation of the property portfolio and goodwill:			
– Impairment arising from the revaluation	a	(12)	(35)
– Other impairment	a	(17)	(12)
– Impairment of goodwill	b	–	(5)
Net movement in the valuation of the property portfolio and goodwill		(29)	(52)
Other exceptional items:			
– Bid defence	c	–	(6)
– Business reorganisation	d	–	(7)
– IT systems reorganisation	d	–	(7)
Net loss arising on other exceptional items		–	(20)
Total operating exceptional items		(29)	(72)
Other adjustments			
Net pensions finance charge (note 8)	e	(5)	(11)
Total exceptional items and other adjustments before tax		(34)	(83)
Tax credit relating to above items		8	18
Exceptional tax charge in respect of previous years	f	–	(1)
Tax credit in respect of change in tax legislation (note 11)	g	18	11
Total tax credit		26	28
Total exceptional items and other adjustments charge after tax		(8)	(55)

a. Movement in the valuation of the property portfolio includes £12m of impairment (2012 £35m) arising from the Group's revaluation of its pub estate and £17m (2012 £12m) of impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.
b. Goodwill impairment following testing of the value in relation to Ha Ha Bar & Grill Limited (see note 13).
c. Relates to legal and professional fees incurred in the defence of a possible offer made by Piedmont Inc. in September 2011 to purchase all of the remaining Company shares. The possible offer was withdrawn on 13 October 2011.
d. Relates to the costs of a reorganisation announced by the Company on 22 November 2011. Costs were primarily redundancy and severance payments, fees in relation to professional advisers and one-off costs connected with the transfer of the IT data centre.
e. The net pensions finance charge is a non-cash adjustment which is excluded from adjusted profit.
f. The charge in the prior period is an adjustment in respect of previous years' disposals and derivative planning.
g. A deferred tax credit has been recognised in the current period following the enactment of legislation on 17 July 2013 which lowered the UK standard rate of corporation tax from 23% to 20% with effect from 1 April 2015. The prior period deferred tax credit relates to the enactment of legislation on 17 July 2012 which lowered the UK standard rate of corporation tax from 25% to 23% with effect from 1 April 2013.

10. Finance costs and revenue

	2013 52 weeks £m	2012 53 weeks £m
Finance costs		
Securitised and other debt – loans and receivables[a]	(130)	(140)
Finance revenue		
Interest receivable – cash	2	2
Net finance charge in respect of pensions (note 8)	(5)	(11)

a. Includes £nil (2012 £6m) in relation to accrued backdated interest on outstanding tax items.

11. Taxation

	2013 52 weeks £m	2012 53 weeks £m
Tax charged in the income statement		
Current tax:		
– UK corporation tax	(34)	(28)
– Amounts over/(under) provided in previous years	14	(8)
Total current tax charge	(20)	(36)
Deferred tax:		
– Origination and reversal of temporary differences	(2)	5
– Adjustments in respect of previous years	(11)	7
– Change in tax rate	18	11
Total deferred tax credit (note 20)	5	23
Total tax charged in the income statement	(15)	(13)

	2013 52 weeks £m	2012 53 weeks restated* £m
Tax relating to items recognised in other comprehensive income		
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised gains due to revaluations – revaluation reserve	**16**	15
– Unrealised gains due to revaluations – retained earnings	**11**	12
– Actuarial losses on pension schemes	**7**	16
– Movement in pension liability recognised due to minimum funding requirements	**(17)**	(23)
	17	20
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– (Gains)/losses arising during the period	**(11)**	24
– Reclassification adjustments for losses included in profit or loss	**(19)**	(18)
	(30)	6
Total tax (charge)/credit recognised in other comprehensive income	**(13)**	26

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

	2013 52 weeks £m	2012 53 weeks £m
Tax relating to items recognised directly in equity		
Deferred tax:		
– Tax charge related to share-based payments	**–**	(1)

Reconciliation of the total tax charge

The tax charge in the income statement for the period is lower (2012 lower) than the standard rate of corporation tax in the UK. The differences are reconciled below:

	2013 52 weeks £m	2012 53 weeks £m
Profit before tax	**150**	83
Accounting profit multiplied by the UK standard rate of corporation tax of 23.5% (2012 25%)	**35**	21
Expenses not deductible	**2**	5
Income not taxable	**(1)**	(3)
Adjustments in respect of previous years	**(3)**	1
Tax credit in respect of change in tax rate	**(18)**	(11)
Total tax charge reported in the income statement	**15**	13

Factors which may affect future tax charges

The Finance Act 2013 was enacted on 17 July 2013 and reduced the main rate of corporation tax from 23% to 20% from 1 April 2015. The effect of this change has been reflected on the closing deferred tax balance shown in note 20.

12. 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 in treasury and by employee share trusts.

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

Adjusted earnings per ordinary share amounts are presented before exceptional items and other adjustments and the net pensions finance charge (see note 9) in order to allow a better understanding of the underlying trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 28 September 2013:			
Profit/EPS	**135**	**32.9p**	**32.7p**
Exceptional items and other adjustments, net of tax	**4**	**1.0p**	**1.0p**
Net pensions finance charge, net of tax	**4**	**1.0p**	**1.0p**
Adjusted profit/EPS	**143**	**34.9p**	**34.7p**
53 weeks ended 29 September 2012:			
Profit/EPS	70	17.1p	17.0p
Exceptional items and other adjustments, net of tax	46	11.2p	11.1p
Net pensions finance charge, net of tax	9	2.2p	2.1p
Adjusted profit/EPS	125	30.5p	30.2p

12. Earnings per share continued

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

	2013 52 weeks m	2012 53 weeks m
For basic EPS calculations	410	409
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	–	2
– Other share options	2	1
For diluted EPS calculations	412	412

At 28 September 2013, 521,591 (2012 4,274,023) 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.

13. Goodwill and other intangible assets

	Goodwill £m	Computer software £m	Total £m
Cost			
At 24 September 2011	7	8	15
Additions	–	–	–
Disposals[a]	–	(4)	(4)
At 29 September 2012	7	4	11
Additions	–	1	1
Disposals[a]	–	(1)	(1)
At 28 September 2013	**7**	**4**	**11**
Accumulated amortisation and impairment			
At 24 September 2011	–	5	5
Provided during the period	–	–	–
Disposals[a]	–	(4)	(4)
Impairment	5	–	5
At 29 September 2012	5	1	6
Provided during the period	–	1	1
Disposals[a]	–	(1)	(1)
At 28 September 2013	**5**	**1**	**6**
Net book value			
At 28 September 2013	**2**	**3**	**5**
At 29 September 2012	2	3	5
At 24 September 2011	7	3	10

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

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

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

Goodwill has been tested for impairment on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 10% (2012 9%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two year period include 2% (2012 2%) growth per annum.

14. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 24 September 2011	3,454	943	4,397
Exchange differences	(2)	(2)	(4)
Transfers from/(to) other categories	10	(6)	4
Additions	55	92	147
Disposals[a]	(19)	(67)	(86)
Revaluation[b]	(30)	(7)	(37)
At 29 September 2012	3,468	953	4,421
Exchange differences	1	1	2
Additions	45	81	126
Disposals[a]	(18)	(58)	(76)
Revaluation[b]	39	(8)	31
At 28 September 2013	**3,535**	**969**	**4,504**
Depreciation			
At 24 September 2011	119	430	549
Exchange differences	(2)	(2)	(4)
Transfers from other categories	2	–	2
Provided during the period	23	88	111
Disposals[a]	(18)	(67)	(85)
At 29 September 2012	124	449	573
Exchange differences	1	1	2
Provided during the period	22	87	109
Disposals[a]	(18)	(57)	(75)
At 28 September 2013	**129**	**480**	**609**
Net book value			
At 28 September 2013	**3,406**	**489**	**3,895**
At 29 September 2012	3,344	504	3,848
At 24 September 2011	3,335	513	3,848

a. Includes assets which are fully depreciated and have been removed from the fixed asset register.
b. The impact of the property revaluation is a net book value increase of £48m (2012 decrease of £25m) comprising an impairment of £12m (2012 £35m) net of a revaluation reserve credit of £60m (2012 £10m) shown in the Group statement of comprehensive income. In addition, a review of the short leasehold and unlicensed property estate has resulted in an impairment of £17m (2012 £12m) (see note 9).

Certain assets with a net book value of £37m (2012 £33m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Properties

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

The freehold and long leasehold properties have been valued at market value, as at 28 September 2013 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector. Changes in these assumptions such as the valuation basis applied in comparable market transactions, or the income level generated by a pub could materially impact the valuation of the freehold and long leasehold properties. It is estimated that a £1 change in the EBITDA of the freehold and long leasehold properties would generate approximately an £8 movement in their valuation.

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

Included within property, plant and equipment are assets with a net book value of £3,569m (2012 £3,541m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

14. Property, plant and equipment continued
Net book value[a]

The split of the net book value of land and buildings is as follows:

	2013 £m	2012 £m	2011 £m
Freehold	**3,047**	2,984	2,967
Long leasehold	**263**	253	260
Short leasehold	**96**	107	108
Total land and buildings net book value	**3,406**	3,344	3,335

a. The carrying value of freehold and long leasehold land and buildings based on their historical cost (or deemed cost at transition to IFRS) is £2,068m and £167m respectively (2012 £2,070m and £166m).

In addition to the above, premiums paid on acquiring a new lease are classified separately in the balance sheet. At 28 September 2013 an amount of £2m (2012 £1m) was included in the balance sheet.

15. Inventories

	2013 £m	2012 £m	2011 £m
Work in progress[a]	**3**	4	4
Goods held for resale	**21**	22	21
Total inventories	**24**	26	25

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

16. Trade and other receivables

	2013 £m	2012 £m	2011 £m
Trade receivables	**2**	1	1
Other receivables	**21**	22	20
Prepayments	**36**	26	18
Other financial assets[a]	**13**	7	31
Total trade and other receivables	**72**	56	70

a. Other financial assets relate to cash collateral provided by the swap counterparty (see note 19).

All amounts fall due within one year.

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

Credit risk is considered in note 19.

17. Trade and other payables

	2013 £m	2012 £m	2011 £m
Current			
Trade payables	**84**	74	99
Other taxation and social security	**55**	63	57
Accrued charges	**84**	81	66
Other payables	**27**	40	45
Other financial liabilities (note 16)	**13**	7	31
Total trade and other payables	**263**	265	298
Non-current			
Other payables[a]	**12**	12	12

a. Non-current other payables comprise an amount held in respect of the Group's gaming machine VAT claim. A decision was released during 2010 in respect of Rank plc's gaming claim and this ruling fell in the taxpayer's favour. As a result, the Group was able to further pursue its own gaming claim which was submitted in April 2006. HMRC agreed to make a repayment of the existing claim, subject to the Group providing a guarantee to HMRC that, in the event that the existing decision is overturned in a higher court, the amount will be repayable in full. The Rank case was appealed by HMRC to the European Court of Justice (ECJ) in 2011 however, no final decision was reached on gaming and the case was referred back to the UK Upper Tribunal. The case is progressing through the UK courts and was heard in the Court of Appeal in May 2013. The decision in this case was released on 30 October 2013 and found in favour of HMRC. Rank has subsequently requested to appeal to the Supreme Court which has now been refused by the Court of Appeal. It is expected that Rank will now appeal directly to the Supreme Court. The Group continues to hold the original repayment amount of £12m as a liability as under the guarantee provided to HMRC in 2010 this amount could now be repayable in full.

Current trade and other payables are non-interest bearing.

18. Borrowings

	2013 £m	2012 £m	2011 £m
Current			
Securitised debt[a,b]	**57**	53	49
Non-current			
Securitised debt[a,b]	**2,075**	2,133	2,197
Total borrowings	**2,132**	2,186	2,246

a. Further details of the assets pledged as security against the securitised debt are given on page 89.
b. Stated net of deferred issue costs.

	2013 £m	2012 £m	2011 £m
Analysis by year of repayment			
Due within one year or on demand	**57**	53	49
Due between one and two years	**69**	66	729
Due between two and five years	**223**	202	182
Due after five years	**1,783**	1,865	1,286
Total borrowings	**2,132**	2,186	2,246

Securitised debt

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited ('MAB Retail'). On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consisted of 10 tranches as follows:

					Principal outstanding		
Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	28 September 2013 £m	29 September 2012 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.21[b]	**178**	186	9 years
A2	550	Fixed – 5.57%	2003 to 2028	6.01	**324**	339	9 years
A3N	250	Floating	2011 to 2028	6.29[b]	**223**[c]	233[c]	9 years
A4	170	Floating	2016 to 2028	5.97[b]	**170**	170	10 years
AB	325	Floating	2020 to 2032	5.74[b]	**325**	325	15 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	**199**	220	5 years
B2	350	Fixed – 6.01%	2015 to 2028	6.12	**350**	350	11 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	**200**	200	16 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	20 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	22 years
	2,555				**2,129**	2,183	

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 £231m (2012 £242m).

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[a]	3 month LIBOR	0.58%
AB[a]	3 month LIBOR	0.60%
C2[a]	3 month LIBOR	1.88%
D1[a]	3 month LIBOR	2.13%

a. The margin on the A4, AB, C2 and D1 notes increased in line with the agreed step-up on the note payment date in September 2013.

The overall cash interest rate payable on the loan notes is 6.1% (2012 5.9%) 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.

18. Borrowings continued

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 28 September 2013, Mitchells & Butlers Retail Limited had cash and cash equivalents of £99m (2012 £133m) which were governed by the covenants associated with the securitisation. Of this amount £43m (2012 £42m), 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:

	2013 £m	2012 £m
Principal outstanding at beginning of period	**2,192**	2,255
Principal repaid during the period	**(55)**	(52)
Exchange on translation of dollar loan notes	**–**	(11)
Principal outstanding at end of period	**2,137**	2,192
Deferred issue costs	**(9)**	(10)
Accrued interest	**4**	4
Carrying value at end of period	**2,132**	2,186

Undrawn committed borrowing facilities

The Group holds an undrawn £295m (2012 £295m) liquidity facility against the securitised arrangements, sized to cover 18 months' debt service, which is not available for any other purpose. This facility will expire on 29 August 2014.

19. Financial instruments

Financial risk management

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

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

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

Funding and liquidity risk

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

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

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

The maturity table below details the contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps. Trade and other payables (note 17) are short-term and excluded from the table.

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
28 September 2013[a]							
Fixed rate:							
Securitised debt[b]	**(186)**	**(186)**	**(188)**	**(193)**	**(194)**	**(2,665)**	**(3,612)**
29 September 2012[a]							
Fixed rate:							
Securitised debt[b]	(181)	(186)	(186)	(188)	(193)	(2,859)	(3,793)

a. Assumes no early redemption in respect of any loan notes.
b. Includes the impact of the cash flow hedges.

Credit risk
The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term). Counterparties may also be required to post collateral with the Group, where their credit rating falls below a predetermined level. An amount of £13m (2012 £7m) of collateral was posted by a swap counterparty within the securitisation as at 28 September 2013. 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:

	2013 £m	2012 £m
Cash and cash equivalents[a]	340	311
Other cash deposits	25	25
Trade receivables	2	1
Other receivables	21	22
Derivatives[a]	5	4

a. As disclosed in notes 16 and 17, the Group has £13m (2012 £7m) of cash collateral which is not included in this balance.

Capital management
The Group's capital base is comprised of its net debt (analysed in note 26) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity and cash flow generation of the pub estate. By keeping debt (see also 'Funding and liquidity risk' above) and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 18). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions at each of its meetings, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Finance Director is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2013 £m	2012 £m	2011 £m
Net debt (note 26)	1,759	1,841	1,870
Total equity	1,219	943	892
Total capital	2,978	2,784	2,762

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

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

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

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US$ finance costs. A movement of 10% in the US$ exchange rate would have £nil (2012 £nil) impact on the reported Group profit and £5m (2012 £4m) impact on the reported Group net assets.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk
The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IAS 39. The interest rate exposure resulting from the Group's £2.1bn 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.

19. Financial instruments continued

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

	2013 £m	2012 £m
Interest income[a]	4	3
Interest expense[b]	–	–
Profit impact	4	3
Derivative financial instruments (fair values)[c]	110	124
Total equity	114	127

a. Represents interest income earned on cash and cash equivalents (these are defined in note 26).
b. The element of interest expense which is not matched by payments and receipts under cash flow hedges (see below) which would otherwise offset the interest rate exposure of the Group.
c. The impact on total equity from movements in the fair value of cash flow hedges (see below).

Derivative financial instruments

Cash flow hedges

Changes in cash flow hedge fair values are recognised 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 £53m (2012 loss of £103m) on cash flow hedges was recognised in equity. A loss of £47m (2012 £54m) was recycled from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 28 September 2013, the Group held 10 (2012 10) interest rate swap contracts with a nominal value of £1,056m (2012 £1,075m), designated as a hedge of the cash flow interest rate risk of £1,056m (2012 £1,075m) 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 4.8805% (2012 4.8856%). The contract maturity dates match those of the hedged item. The 10 interest rate swaps above are held on the balance sheet at fair market value, which is a liability of £228m (2012 £325m).

At 28 September 2013 the Group held one (2012 one) cross currency interest rate swap contract, with a nominal value of £223m (2012 £233m), designated as a hedge of the cash flow interest rate and currency risk of the Group's A3N floating rate $373m (2012 $390m) borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value asset of £5m (2012 £4m).

The cash flows on this contract occur quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a floating rate of interest at LIBOR in sterling.

The fair values of the derivative financial instruments were measured at 28 September 2013 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	–	–	(46)	(182)	(228)
– Cross currency swap	5	–	–	–	5
28 September 2013	5	–	(46)	(182)	(223)
29 September 2012	4	–	(45)	(280)	(321)
24 September 2011	18	–	(44)	(235)	(261)

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

	2013 Book value £m	2013 Fair value £m	2012 Book value £m	2012 Fair value £m
Financial assets:				
– Cash	365	365	336	336
– Derivative instruments in designated hedge accounting relationships	5	5	4	4
– Loans and receivables	23	23	23	23
Financial liabilities:				
– Amortised cost	(2,132)	(2,073)	(2,186)	(1,927)
– Derivative instruments in designated hedge accounting relationships	(228)	(228)	(325)	(325)
– Other	(166)	(166)	(177)	(177)
	(2,133)	(2,074)	(2,325)	(2,066)

The various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Fair value of financial instruments

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

20. Deferred tax

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

	2013 £m	2012 restated* £m	2011 restated* £m
Deferred tax liability:			
Accelerated capital allowances	46	52	56
Rolled over and held over gains	139	161	177
Unrealised gains on revaluations	153	161	188
Depreciated non-qualifying assets	7	8	8
Total deferred tax liability	345	382	429
Deferred tax asset:			
Retirement benefit obligations (note 8)	50	63	75
Share-based payments	2	3	5
Derivative financial instruments	46	76	69
Non-trade tax losses	7	8	–
Total deferred tax asset	105	150	149

* Restatement for movement in pension liabilities recognised due to minimum funding requirements (see note 1).

	2013 £m	2012 £m	2011 £m
Deferred tax in the income statement:			
Accelerated capital allowances	(6)	(4)	(18)
Retirement benefit obligations	3	5	5
Rolled over and held over gains	(11)	(8)	(15)
Depreciated non-qualifying assets	(1)	(1)	(1)
Unrealised gains/(losses) on revaluations	8	(7)	1
Short term temporary differences	1	–	1
Non-trade tax losses	1	(8)	5
Total deferred tax credit in the income statement (note 11)	(5)	(23)	(22)

Unrecognised tax losses

At the balance sheet date the Group had unused losses of £6m (2012 £6m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £1m (2012 £1m) because it is not certain that future taxable profits will be available against which the Group can utilise the benefit. These tax losses can be carried forward indefinitely.

21. Provisions

	Property leases £m
At 24 September 2011	6
Additions/(releases)	6
Utilised	(3)
At 29 September 2012	9
Additions/(releases)	3
Utilised	(3)
At 28 September 2013	**9**

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net rent payable or the operating loss after rental costs. The provision is calculated on a site by site basis, with an estimated period of future losses ranging from three to five years. Other contractual dilapidations costs are also recorded as provisions as appropriate, over a period of five years prior to lease expiry.

22. Called up share capital

	2013		2012	
	Number of shares	£m	Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of $8\frac{13}{24}$p each				
At start of period	**409,923,805**	**35**	409,467,418	35
Share capital issued	**1,087,293**	**–**	456,387	–
At end of period	**411,011,098**	**35**	409,923,805	35

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

No dividends have been declared or paid in the period (2012 £nil).

Details of options granted under the Group's share schemes, are contained in note 7.

23. Employee share trusts

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and national insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 28 September 2013, the trustees, Equiniti Share Plan Trustees Limited, held 1,592,802 (2012 1,584,896) shares in the Company. Of these shares, 376,215 (2012 260,283) shares are unconditionally available to employees, 362,927 (2012 426,313) shares have been conditionally awarded to employees, 832,704 (2012 866,754) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 20,956 (2012 31,546) 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 28 September 2013, the trustees, Sanne Trust Company Limited, were holding 521,295 (2012 546,560) shares in the Company.

24. Equity reserves

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £227m at 28 September 2013 (2012 £181m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 18).

Share premium account

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

Capital redemption reserve

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

Revaluation reserve

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

Own shares held

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

During the period, 429 treasury shares were released to employees on the exercise of options for a total consideration of £nil. There are no treasury shares remaining at 28 September 2013 (29 September 2012 429).

During the period, the employee share trusts acquired 1,250,000 (2012 350,000) and subscribed for 181,578 (2012 335,794) shares at a cost of £5m (2012 £1m), released 1,448,937 (2012 1,094,326) shares to employees on the exercise of options and other share awards for a total consideration of £2m (2012 £1m). The 2,114,097 shares held by the trusts at 28 September 2013 had a market value of £9m (29 September 2012 2,131,456 shares held had a market value of £6m). Further details regarding the employee share trusts are given in note 23.

Hedging reserve

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

Translation reserve

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

25. Cash flow from operations

	2013 52 weeks £m	2012 53 weeks £m
Operating profit	**283**	232
Add back: operating exceptional items (note 9)	**29**	72
Operating profit before exceptional items	**312**	304
Add back:		
Depreciation of property, plant and equipment (note 4)	**109**	111
Amortisation of intangibles (note 4)	**1**	–
Cost charged in respect of share-based payments (note 6)	**2**	–
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	**424**	415
Movements in working capital and pension contributions:		
Decrease/(increase) in inventories	**2**	(1)
Increase in trade and other receivables	**(10)**	(9)
Decrease in trade and other payables	**(5)**	(21)
Increase in provisions	**–**	3
Additional pension contributions (note 8)	**(40)**	(40)
Cash flow from operations	**371**	347

26. Analysis of net debt

	2013 £m	2012 £m	2011 £m
Cash and cash equivalents (see below)	**340**	311	306
Other cash deposits (see below)	**25**	25	50
Securitised debt (note 18)	**(2,132)**	(2,186)	(2,246)
Derivatives hedging balance sheet debt[a] (note 18)	**8**	9	20
	(1,759)	(1,841)	(1,870)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US dollar denominated loan notes (see note 18). This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including overnight deposits, of £268m (2012 £286m) and cash deposits with an original maturity of three months or less of £72m (2012 £25m).

Other cash deposits

Other cash deposits at 28 September 2013 comprise £25m (2012 £25m) of cash at bank with an original maturity of three months or more.

27. Movement in net debt

	2013 52 weeks £m	2012 53 weeks £m
Net increase in cash and cash equivalents (note 26)	**29**	5
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	**–**	(25)
Repayment of principal in respect of securitised debt	**55**	52
Decrease in net debt arising from cash flows	**84**	32
Movement in capitalised debt issue costs net of accrued interest	**(2)**	(3)
Decrease in net debt	**82**	29
Opening net debt	**(1,841)**	(1,870)
Closing net debt	**(1,759)**	(1,841)

28. Financial commitments
Leases

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

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

Operating lease commitments – Group as lessee

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

	2013 £m	2012 £m
Due within one year	42	41
Between one and five years	158	153
After five years	424	443
	624	637

Operating lease receivables – Group as lessor

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

	2013 £m	2012 £m
Due within one year	6	7
Between one and five years	20	23
After five years	49	56
	75	86

Lease income recognised in the year was as follows:

	2013 52 weeks £m	2012 53 weeks £m
Standard lease income	8	9

Capital commitments

	2013 £m	2012 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	18	16

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

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

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

a. Shares held directly by Mitchells & Butlers plc.

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

Compensation of key management personnel of the Group:

	2013 £m	2012 £m
Short-term employee benefits	2	3
Termination payments	–	1
Share-based payments	–	–
Pension benefits	–	–
	2	4

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

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

Five year review
Income statement information

	2013 52 weeks £m	2012 53 weeks £m	2011 52 weeks £m	2010 52 weeks £m	2009 52 weeks £m
Revenue	**1,895**	1,889	1,796	1,980	1,958
Operating profit before exceptional items	**312**	304	294	322	300
Operating exceptional items	**(29)**	(72)	(19)	(289)	(87)
Total operating profit	**283**	232	275	33	213
Finance revenue	**2**	2	3	–	–
Interest on net debt	**(130)**	(140)	(141)	(153)	(166)
Exceptional interest charge	**–**	–	–	–	(51)
Net pensions finance charge	**(5)**	(11)	(5)	(7)	(6)
Profit/(loss) before taxation	**150**	83	132	(127)	(10)
Taxation (charge)/credit	**(15)**	(13)	(7)	43	14
Profit/(loss) for the period	**135**	70	125	(84)	4
Earnings/(loss) per share					
Basic	**32.9p**	17.1p	30.7p	(20.6)p	1.0p
Diluted	**32.7p**	17.0p	30.5p	(20.6)p	1.0p
Adjusted (Basic)	**34.9p**	30.5p	28.0p	29.7p	23.6p
Dividends paid and proposed[a]					
Normal dividends (£m)	**–**	–	–	–	–
Normal dividends per share	**–**	–	–	–	–

a. Dividend information represents interim and final dividends for each period presented.

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

Company balance sheet

28 September 2013

Registered Number: 04551498

	Notes	2013 £m	2012 restated* £m	2011 restated* £m
Fixed assets				
Investments	5	**1,719**	1,718	1,720
		1,719	1,718	1,720
Current assets				
Debtors: amounts falling due within one year	6	**225**	237	142
Debtors: amounts falling due in more than one year	6	**–**	–	1
Other cash deposits		**97**	50	75
Cash and cash equivalents		**151**	140	131
		473	427	349
Creditors: amounts falling due within one year	7	**(1,328)**	(1,326)	(1,338)
Net current liabilities		**(855)**	(899)	(989)
Net assets before net pension liabilities		**864**	819	731
Net pension liabilities	2	**(198)**	(213)	(228)
Net assets		**666**	606	503
Capital and reserves				
Called up share capital	8, 9	**35**	35	35
Share premium account	9	**23**	21	21
Capital redemption reserve	9	**3**	3	3
Profit and loss account	9	**605**	547	444
Shareholders' funds		**666**	606	503

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

Signed on behalf of the Board on 25 November 2013

Alistair Darby
Tim Jones

The accounting policies and the notes on pages 101 to 106 form an integral part of these financial statements.

Notes to the Company financial statements

1. Accounting policies

Basis of accounting

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

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

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

The Company's accounting policies have been applied consistently.

Restatement

Recent guidance from the Financial Reporting Review Panel (FRRP) has clarified the treatment of a schedule of contributions under section 227 of the Pension Act 2004 in relation to the recognition of pension liability. As a result the Company has included the schedule of contributions as a minimum funding requirement within the meaning of IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and accounts for this liability within the pension deficit for the period ended 28 September 2013.

To reflect this conclusion, the Company has restated the comparative amounts for the periods ended 29 September 2012 and 24 September 2011 which has the impact of increasing the pension liability by £188m and £266m respectively; increasing the deferred tax asset by £43m and £66m; and reducing brought forward retained earnings (through a reduction in other comprehensive income) by the net amount of £145m and £200m. There is no change to profit before tax and no cash impact.

Fixed asset investments

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

Current taxation

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

Deferred taxation

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

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

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

Pension obligations

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

The actuarial liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets, shown net of deferred tax. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified independent actuaries.

Following recent guidance from the Financial Reporting Review Panel, the total liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability.

There is no current service cost as all defined benefit schemes are closed to future accrual. The interest cost and the expected return on assets are shown as a net amount within finance income or expense. Actuarial gains and losses are recognised immediately in equity. Curtailments and settlements relating to the Company's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

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

Share-based compensation

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

Foreign currencies

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

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

Profit and loss account

The Company recorded a profit after tax of £77m (2012 £114m), less dividends of £nil (2012 £nil).

Auditors' remuneration for audit services to the Company was £22,000 (2012 £22,000). This is borne by another group company, as are any other costs relating to non-audit services (see note 5 to the consolidated financial statements).

Cash flow statement

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

Related party transactions

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

Notes to the Company financial statements
continued

2. Pensions
The net pension liability of £198m (2012 £213m, 2011 £228m), is shown net of a deferred tax asset of £50m (2012 £63m, 2011 £75m). The 2012 and 2011 pension liability and associated deferred tax asset have been restated to reflect recent guidance from the FRRP regarding the treatment of a schedule of contributions in relation to a minimum funding requirement under IFRIC 14 (see note 8 to the consolidated financial statements).

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 8 on pages 82 to 85 to the consolidated financial statements.

Although the Company accounts for pensions under FRS 17 Retirement Benefits, the pension amounts and disclosures included in note 8 to the consolidated financial statements in accordance with IAS 19 Employee Benefits, are equivalent to those which are applicable under FRS 17.

3. Employees and Directors

	2013 52 weeks	2012 53 weeks
Average number of employees, including part-time employees	2	3

Employees of Mitchells & Butlers plc consist of Executive Directors.

4. Share-based payments
The charge recognised for share-based payments in the period is £nil (2012 credit of £1m) which comprises share option schemes and share awards to the employees of the Company.

Details of employee share schemes and options granted over the shares of the Company are included under note 7 of the consolidated financial statements.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 28 September 2013 and 29 September 2012 are as follows:

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 24 September 2011	39	2,164	15
Granted	13	–	2
Exercised	(19)	(230)	(15)
Forfeited	–	–	–
Expired	(20)	(1,121)	–
Outstanding at 29 September 2012	13	813	2
Granted	–	477	1
Exercised	(7)	(201)	–
Forfeited	–	–	(1)
Expired	–	(612)	–
Outstanding at 28 September 2013	**6**	**477**	**2**
Fair value of options granted during the period (pence)[a]			
At 28 September 2013	**–**	**213.9**	**370.9**
At 29 September 2012	223.9	–	249.3
Weighted average remaining contract life (years)			
At 28 September 2013	**0.2**	**4.2**	**–[b]**
At 29 September 2012	0.7	2.2	–[b]

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

	Executive Share Option Plan		Sharesave Plan	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 24 September 2011	371	310.8	19	215.7
Granted	–	–	13	182.0
Exercised	(77)	252.5	(8)	196.0
Forfeited	–	–	(11)	229.3
Expired	(294)	326.1	–	–
Options outstanding at 29 September 2012	–	–	13	182.0
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	(8)	182.0
Expired	–	–	–	–
Options outstanding at 28 September 2013	–	–	5	182.0
Options exercisable				
At 28 September 2013	–	–	–	–
At 29 September 2012	–	–	–	–
Fair value of options granted during the period (pence)[a]				
At 28 September 2013		–		–
At 29 September 2012		–		86.8
Range of prices (pence) of options outstanding				
At 28 September 2013		–		**182.0**
At 29 September 2012		–		182.0

a. Fair value is calculated on date of grant.

The weighted average share price during the period was 355.3p (2012 252.1p).

Summarised information about options over the Company's shares outstanding at 28 September 2013 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 82.

Notes to the Company financial statements
continued

5. Fixed asset investments

	Shares in subsidiary undertakings £m
Cost	
At 24 September 2011	1,750
Exchange differences	(2)
At 29 September 2012	1,748
Exchange differences	1
At 28 September 2013	**1,749**
Provision	
At 24 September 2011	30
Provided during period	–
At 29 September 2012	30
Provided during period	–
At 28 September 2013	**30**
Net book value	
At 28 September 2013	**1,719**
At 29 September 2012	1,718
At 24 September 2011	1,720

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings (see note 29 of the consolidated financial statements).

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

6. Debtors

	2013 £m	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	**224**	237	142
Prepayments	**1**	–	–
Deferred tax asset	**–**	–	1
	225	237	143

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

7. Creditors: amounts falling due within one year

	2013 £m	2012 £m	2011 £m
Bank overdraft	**26**	26	26
Amounts owed to subsidiary undertakings	**1,300**	1,298	1,310
Other creditors	**2**	2	2
	1,328	1,326	1,338

8. Called up share capital

Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 22 to the consolidated financial statements.

9. Capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account reserve: Own shares £m	Profit and loss account reserve: Other £m	Profit and loss account reserve: Total £m
At 24 September 2011	35	21	3	(5)	649	644
Prior period restatement*	–	–	–	–	(200)	(200)
At 24 September 2011 (restated*)	35	21	3	(5)	449	444
Share capital issued	–	–	–	–	–	–
Purchase of own shares	–	–	–	(1)	–	(1)
Charge in respect of employee share schemes	–	–	–	–	(1)	(1)
Release of own shares	–	–	–	3	(2)	1
Actuarial loss on pension schemes	–	–	–	–	(81)	(81)
Movement in pension liability due to minimum funding requirements*	–	–	–	–	78	78
Deferred tax relating to actuarial loss	–	–	–	–	16	16
Deferred tax relating to movement in pension liability due to minimum funding requirements*	–	–	–	–	(23)	(23)
Profit after taxation	–	–	–	–	114	114
At 29 September 2012 (restated*)	35	21	3	(3)	550	547
Share capital issued	–	2	–	–	–	–
Purchase of own shares	–	–	–	(5)	–	(5)
Credit in respect of employee share schemes	–	–	–	–	2	2
Release of own shares	–	–	–	4	(2)	2
Actuarial loss on pension schemes	–	–	–	–	(65)	(65)
Movement in pension liability due to minimum funding requirements	–	–	–	–	57	57
Deferred tax relating to actuarial loss	–	–	–	–	7	7
Deferred tax relating to movement in pension liability due to minimum funding requirements	–	–	–	–	(17)	(17)
Profit after taxation	–	–	–	–	77	77
At 28 September 2013	**35**	**23**	**3**	**(4)**	**609**	**605**

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

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

Notes to the Company financial statements
continued

10. Deferred tax asset

	£m
At 24 September 2011 (restated*)	76
Charged to profit and loss account	(6)
Charged to profit and loss account reserves (restated*)	(7)
At 29 September 2012 (restated*)	63
Charged to profit and loss account	(3)
Charged to profit and loss account reserves	(10)
At 28 September 2013	**50**

Analysed as tax timing differences related to:

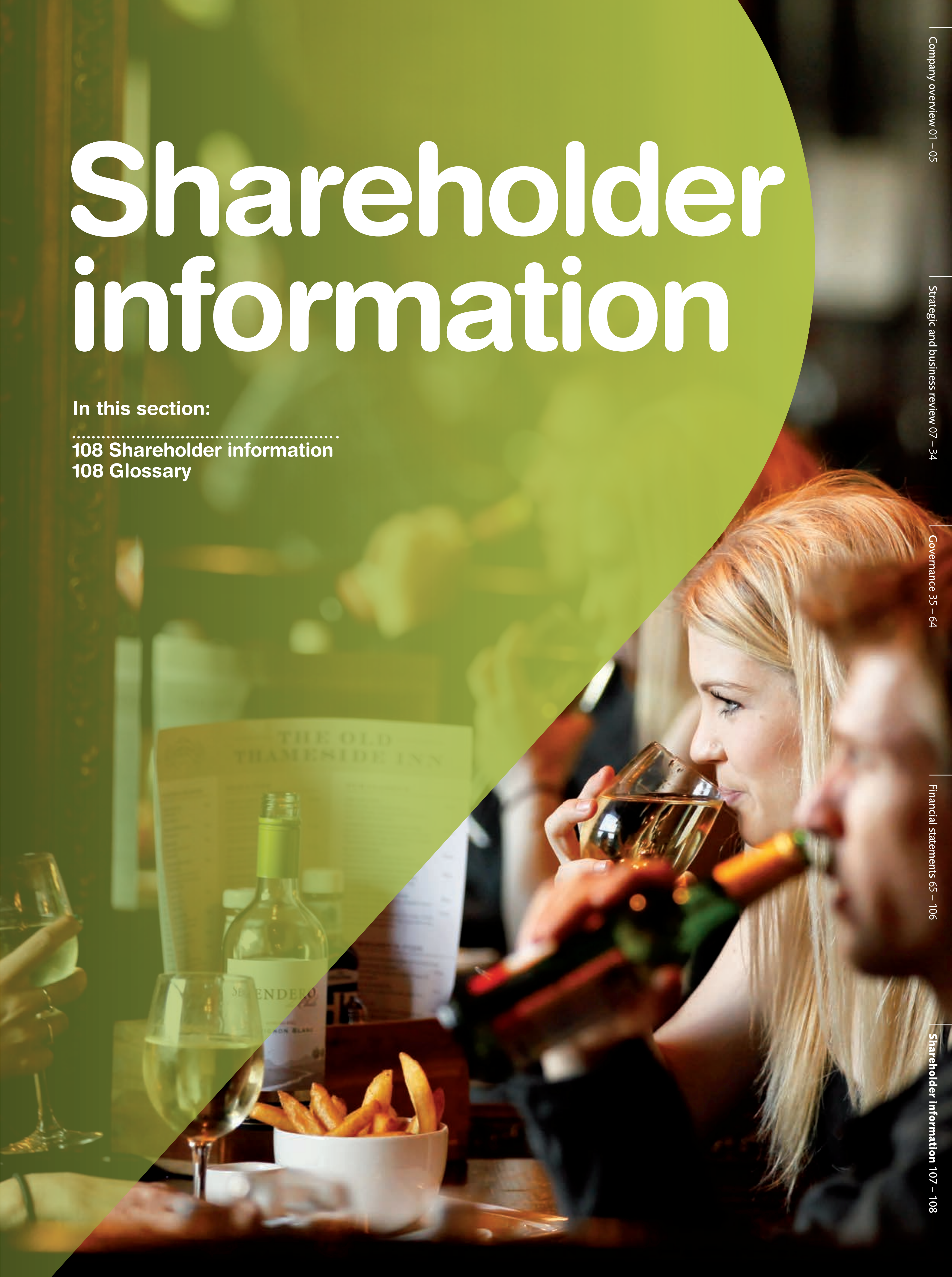
	2013 £m	2012 restated* £m	2011 restated* £m
Pensions	50	63	75
Share-based payments	–	–	1
	50	63	76

* Restatement for movement in pension liability recognised due to minimum funding requirements (see note 1).

The pension liability is shown net of the associated deferred tax asset (see note 2).

Further information on the changes to tax legislation are provided in note 11 to the consolidated financial statements.

Shareholder information



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Fax +44 (0)1903 833 113

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

* Calls to these numbers are charged at 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday (excluding Bank Holidays).

Key dates
These dates are indicative only and may be subject to change

2013 final results announcement	26 November 2013
Annual General Meeting	30 January 2014
Interim management statement	January 2014
Announcement of half-year results	May 2014
Interim management statement	July 2014
Pre-close trading update	September 2014
2014 final results announcement	November 2014

Glossary

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

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

EBIT
Earnings before interest and tax.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

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

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

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

Net promoter score
A measure of guest recommendation based on 700,000 responses per year.

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

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

Operating profit
Earnings before interest and tax.

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

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

Retail support centre
All central functions supporting our restaurants and pubs.

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

Mitchells & Butlers online

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

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

To find out more go to www.mbplc.com

Our brands

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

Sizzling Pubs
www.sizzlingpubs.co.uk

Vintage Inns
www.vintageinn.co.uk

Harvester
www.harvester.co.uk

Ember
www.emberinns.co.uk

Toby Carvery
www.tobycarvery.co.uk

Crown Carveries
www.crowncarveries.co.uk

Castle
www.mbplc.com/findapub

Nicholson's
www.nicholsonspubs.co.uk

Oak Tree Pubs
www.mbplc.com/findapub

Premium Country Dining Group
www.mbplc.com/findapub

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

Alex
www.alexgastro.de

All Bar One
www.allbarone.co.uk

Village Pub & Kitchen
www.villagepubandkitchen.co.uk

Miller & Carter
www.millerandcarter.co.uk

Browns
www.browns-restaurants.co.uk

Innkeeper's Lodge
www.innkeeperslodge.co.uk

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