Mitchells & Butlers plc
Annual report and accounts 2008

Mitchells
& Butlers

Content summary

Front cover:
The Riverside Inn, Harvester, Bournemouth

This page:
The Fighting Cocks, Metro Professionals, Moseley, Birmingham

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2008 highlights

Operational

£19,200
Average weekly sales per pub

+50%
EBITDA uplifts on converted Original Acquired Sites

+10.2%
Growth in average number of main meals per pub per week

110million
Meals served this year

Financial

£1,908m
Revenue up 0.7%

£477m
EBITDA* up 1.1%

£343m
Operating Profit* flat

31.5p
Adjusted Earnings per Share* down 11.3%

* Before exceptional items and IAS 39 movements

Mitchells & Butlers' focus

Mitchells & Butlers has consistently responded to the changing demands of both the market and our customers by developing and evolving a targeted range of leading brands and formats with ever-broader social appeal. Trading under these brands and formats, our high quality, predominantly freehold estate of large, well-located pubs across the country is focused on the long-term growth of informal, value-for-money eating and drinking out. Our sustained investment in the amenity, service standards and consumer choice that we offer is widening our lead over our competitors.

Drummond Hall
Chairman

I was appointed as Chairman in June this year having been a Board member of the Company since July 2004. I am pleased to have the opportunity to take on this role in a business which I believe is well positioned for continued success. My key priority is the continuation of the Board's commitment to the creation of value in Mitchells & Butlers for the benefit of all its shareholders.

It has been a very challenging year for the pub sector and Mitchells & Butlers. We delivered a strong operational performance despite the pressures resulting from the first year of the smoking ban, the acceleration in the rate of on-trade beer market volume declines and significant cost inflationary pressures. Unfortunately, we were an early casualty of the difficulties caused by the 'credit crunch'. In January the Company announced that, following a rapid deterioration in the mark-to-market deficit on the financial hedges taken out in connection with last year's proposed property joint venture, it had closed out in cash the hedges no longer required at a pre-tax cost of £386m. On behalf of all the members of the Board I want to express our deep regret for the loss that occurred and the effect it has had on your business.

At that time, in the absence of a property joint venture, we announced that we would conduct a thorough strategic review to determine clearly and openly what the best options were for creating value for our shareholders. This review examined an extensive range of options. Its main conclusions were the following: our business model was robust, sustainable and powerful; the Company should extend its leadership in the pub eating-out market by continuing to pursue our successful value and volume strategy; the Board should investigate options to create value from the non-core assets including Lodges, Hollywood Bowl and Alex; the creation of value through a REIT should be pursued when the timing is appropriate; and the executive management were proven, respected and committed to shareholder value.

Following the strategic review we were able successfully to refinance and extend our short-term borrowings into a three-year unsecured facility to November 2011. The facility has been set to £600m initially; reducing to £550m from December 2008; £400m from December 2009; and £300m by December 2010.

Given current market uncertainties, the Board is focused on reducing the levels of unsecured medium-term debt. It has therefore decided, despite a resilient trading performance and strong cash generation, not to propose a final dividend and will suspend dividend payments until drawing levels on its medium-term facility are adequately below £300m. The Board recognises the importance of dividends to shareholders and expects to resume dividend payments once a comfortable level of headroom has been reached. Drawings on the facility were £514m at the year end and have since fallen to £475m at today's date.

Mitchells & Butlers operational performance has been robust with operating profits maintained for the year ended, while current trading is resilient, reflecting an acceleration in the rate of market share gains. As a result of this performance, cash generation has been strong with net cash flow last year of £164m, before dividend payments but after amortisation of secured debt. Overall, since the end of January, net debt has reduced by £175m to £2,735m.

We are also conserving cash by reducing current year expansionary capital expenditure to focus resources on the maintenance of the existing high amenity standards in the estate as well as implementing further cost efficiency measures in the business.

We will continue to seek value creative disposal opportunities. However, our ability to realise cash at acceptable values from the remaining non-core assets, as envisaged in the strategic review, has been significantly impacted by the prevailing conditions in the financial markets in recent months. We are not prepared to dispose of non-core assets for amounts materially below their fair value.

Based on the steps we are taking with regard to dividends and capital expenditure, and absent any further corporate disposals or alternative financing arrangements, we anticipate that the appropriate level of drawings will be achieved in FY 2010, in advance of the scheduled amortisation.

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Property valuation

Cash return
A cash return of 10.6% after tax was achieved in the year, four to five percentage points above the Company's weighted average cost of capital.

The Company is focusing its substantial cash flow generation on reducing debt to an appropriate long-term level and securing a resilient operating performance amidst challenging market conditions. The suspension of dividend payments reflects proactive debt reduction in uncertain markets, not a change in the fundamental long-term prospects of the business.

The underlying performance of the business this year, under Tim Clarke's leadership, has been strong and is delivering significant market share gains. This reflects the strength of the management team and the hard work and commitment of all our operational teams allied to the expertise of our support functions. Mitchells & Butlers has reinforced its leadership position in the managed pub sector by continuing to leverage profitable market share gains from the value and volume sales strategy, the strength of the brand portfolio and the quality of the estate. These operational factors have helped offset the impact of the first year of the smoking ban as well as the increased interest costs in the year. As a result we have delivered same outlet like-for-like sales growth of 1%; and maintained operating profits with earnings per share before exceptional items down 11.3%. I would like to thank all our 41,000 employees for their efforts in delivering these results in difficult conditions.

There have been a number of changes to the Board during the year. Karim Naffah elected to step down from the Board as Finance Director in January having joined Bass plc in 1991. Roger Carr resigned in June on his appointment as Chairman of Cadbury plc having chaired the business since demerger in 2003 and having successfully guided the business into its strong competitive position today. I share Roger's strong commitment to the creation and delivery of value to all shareholders by whatever route is the most appropriate.

Jeremy Townsend was appointed as Finance Director in January having joined the Company in June 2005 as Deputy Finance Director. After the strategic review, Aaron Brown and Tim Smalley from R20 Ltd joined as Non-Executive Directors in June but, as a result of R20 Ltd's disposal of its shareholding, they both resigned from the Board in October 2008. A recruitment process, led by the Nomination Committee using an external agency, is underway to effect an appropriate balance between the independent Non-Executive Directors and the Executive Directors on the Board. This process is expected to be completed during FY 2009. I look forward, with the Board, to developing the business further in the year ahead.

We believe our value focused strategy is even more relevant and appealing to the consumer in these difficult times, when discretionary incomes are under pressure, than it has been over the past two or three years. We are determined not just to weather the economic storm, but to emerge from the current difficult conditions in an even stronger competitive position.

Top:
The Oystercatcher, Vintage Inns, Climping, West Sussex
Bottom:
The Argyll Arms, Nicholson's, central London

Offering real value for our customers

We have repositioned our pubs to focus on the growth areas of the informal eating-out market and we are now capturing a disproportionate share of pub dining in the UK. Our large, mainly residential pubs have the scale and capacity to serve high volumes of food at attractive prices, meaning that we can offer our customers real value, whenever and wherever they want to eat out.

Food sales mix

39%

Average main meal price £6.05
The average main meal price in our pubs is £6.05, well below the average of £7.92 charged in the pub market

£6.05

In this section: Our pubs
In each market segment, we aim to provide a combination of superior quality and value to drive higher sales, profitability and growth

- **Local Pubs**
  Pubs trading in the heart of their local communities
- **Pub Restaurants**
  Casual pub dining in residential areas at its best
- **High Street**
  Vibrant, social pubs and restaurants in town centres nationwide

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Pubs with attractive offers and wide social appeal

Brands and operating formats

76%

Residential pubs account for 76% of managed sales

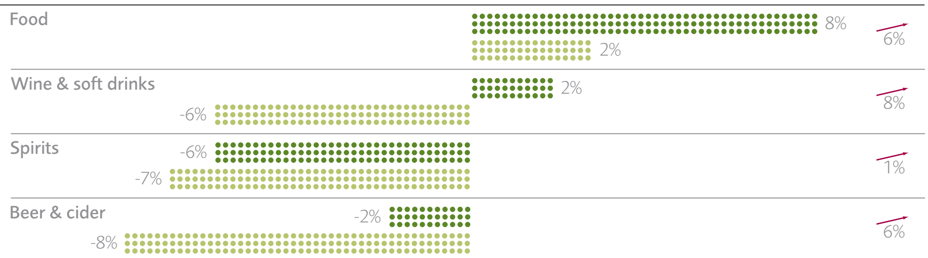
Within residential, Local Pubs account for 30% of sales, and Pub Restaurants 46%

24%

High Street pubs account for 24% of managed sales

Profitable market share gains

Same outlet like-for-like volume growth
Estimated market volume
Out-performance

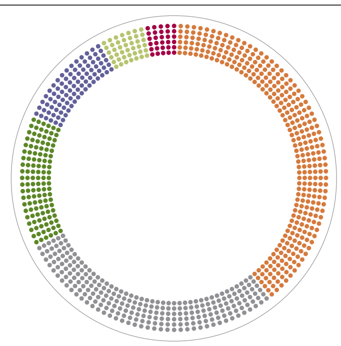


Sources: BBPA/AC Nielsen/ONS

Changing sales mix

Managed sales mix FY 2008

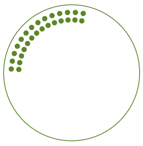
- Food – 39%
- Beer & cider – 29%
- Wines & soft drinks – 14%
- Spirits – 10%
- Accommodation & other – 5%
- Machines – 3%



Local Pubs

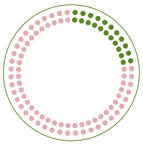
Transforming eating-out in local communities

Operating format: Local Pubs



% managed sales

Local Pubs 30%



% food sales

Food sales 24% of Local Pubs' sales

37%
Local Pubs constitute 37% of Mitchells & Butlers pubs

+12%
Food sales up 12% in Local Pubs

Operational highlights

900+
Sizzling Pub Co. serves over 900 meals per pub per week

£4,700
Average sales uplifts per week after conversion to Cornerstone

Our brands and formats

Sizzling Pub Co.
Friendly, comfortable Local Pubs offering regulars and families great value sizzling dishes and a good choice of drinks

Ember Inns
High quality Local Pubs providing our customers with a home from home and a great range of cask ales, wines and quality food

Cornerstone
Great value, inclusive pubs at the heart of their neighbourhoods, providing regulars with a relaxed, sociable place to meet up with everyone they know

Metro Professionals
Highly individual pubs which attract an eclectic, urban crowd and offer an innovative choice of wines and cask beers and food with a contemporary twist

Scream
Aimed at students and like-minded individuals, and famous for the Scream burger as well as their excellent lager selection, these pubs are often the best places in town to watch all major sporting events

In highly populated areas, Local Pubs with the size and ability to deliver value and quality food are experiencing a rapid increase in demand

Clockwise from top left:
The Fighting Cocks
Metro Professionals, Moseley, Birmingham
The Barley Mow
Sizzling Pub Co., Banbury
The Hollybrook
Ember Inns, Littleover, Derby
Man on the Moon
Cornerstone, King's Norton, Birmingham

MAN ON THE MOON

spring
summer
menu
main meals from
£4.49
Sunday Roast


MERLIN
PUB & EATING

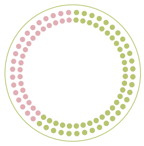
Pub Restaurants

Capturing growth in the residential casual dining market

Operating format: Pub Restaurants

% managed sales

Pub Restaurants 46%



% food sales

Food sales 61% of Pub Restaurants sales

40%
Pub Restaurants constitute 40% of Mitchells & Butlers pubs

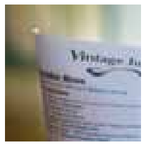
+4%
Food sales up 4% in Pub Restaurants

Operational highlights

3,300
Crown Carveries serve an average of 3,300 main meals per pub per week

+10%
10% food sales growth in Premium Country Dining Group

Our brands and formats



Vintage Inns
Traditional Pub Restaurants with real character and cosy interiors, providing a warm, relaxed atmosphere, excellent wines, cask-conditioned ales and good food

Harvester
Family-friendly restaurants serving freshly prepared grills, spit-roasts and fish dishes and the famous salad cart included with every meal

Toby Carvery
Welcoming, accessible traditional Pub Restaurants with carvery experts creating Sunday every day for all our guests, whatever the occasion

Crown Carveries
Top quality carvery meals at great prices within a friendly Local Pub serving good value drinks

Premium Country Dining Group
Modern country restaurants with great bars designed to offer our guests high quality, fresh food and drink in a sophisticated environment

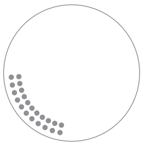
Our strength in the residential casual dining market is best demonstrated by the performance post conversion of the Original Acquired Sites with EBITDA uplifts per pub running at over 50%; sales up 20% and food volumes up over 30%

Clockwise from top:
The Masons Arms
Crown Carveries, Bristol
The Merlin
Premium Country Dining Group, Alderley Edge
Sheldon Hall
Crown Carveries, Birmingham
The Merlin
(see above)

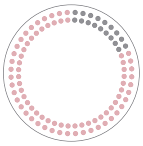
High Street

Strong brands in a competitive market

Operating format: High Street



% managed sales
High Street 24%



% food sales
Food sales 18% of High Street sales

23%
High Street constitutes 23% of Mitchells & Butlers pubs

+11%
Food sales up 11% in High Street

Operational highlights

+30%
30% growth in breakfast sales

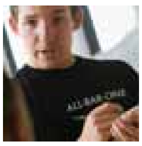
+10%
10% growth in coffee sales

Our brands and formats

Town pubs
Conveniently located city centre pubs offering good value food and drink, whether for a morning coffee, a lunch-time get together or an after-work drink with friends

O'Neill's
Irish bars offering great 'craic' and live music alongside hearty pub food with a distinct Irish flavour and the best Guinness in town

Nicholson's and Classic Pubs
These beautifully restored, historic pubs, located in London and other cities across the country, offer premium quality food and a wide selection of cask ales



All Bar One
Stylish, contemporary bars in cities nationwide, run by professionals for professionals

Music bars
Playing the best music from the 70s, 80s and 90s, these high street venues offer customers a terrific night of dancing in a mixed, friendly crowd

Browns
Elegant brasserie bars and restaurants offering a fusion of British and European classic dishes in tasteful surroundings

Our drinks sales performance has been achieved through our focus on delivering quality, choice and value across a range of products in each category

Clockwise from top left:
Browns
Windsor
O'Neill's
Cheltenham
Philharmonic Dining Rooms
Classics, Liverpool
Browns
Old Jewry, London

Actively managing our property assets

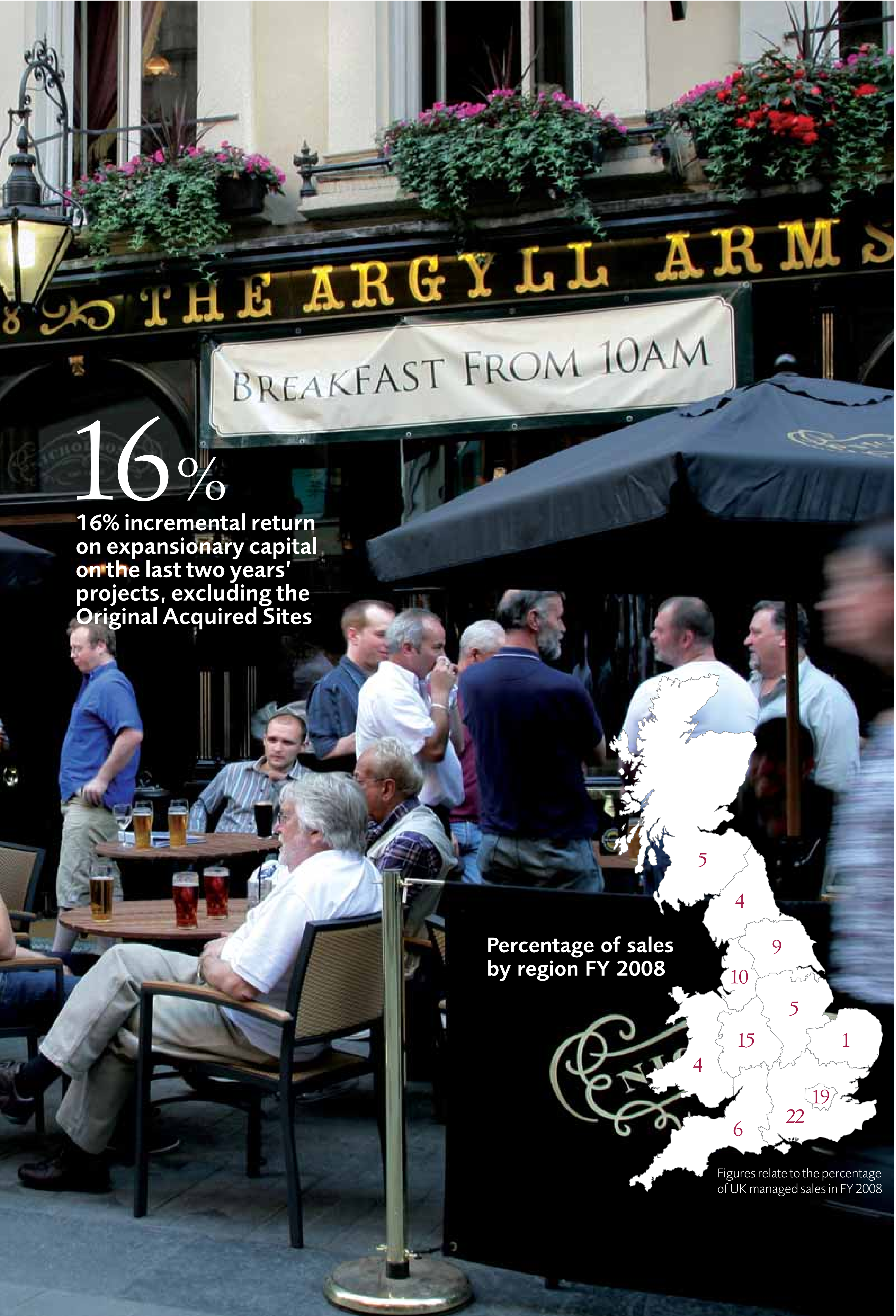
£193m

£193m spent in total on capital expenditure in the year

£82m

£82m of proceeds from disposals in the year at high EBITDA multiples

The Argyll Arms, Nicholson's, central London



16%

16% incremental return on expansionary capital on the last two years' projects, excluding the Original Acquired Sites

Percentage of sales by region FY 2008

Figures relate to the percentage of UK managed sales in FY 2008

Continually improving our customers' choice of food and drink

£7,800

Average weekly food sales per pub up 7.2% to £7,800

33%

33% growth in same outlet imported premium lager volumes

Deacon Brodie's Tavern, Classics, Edinburgh

40p

Average price per pint of our standard lager is 40p cheaper than the average in leased pubs

(2.8)%

Decrease in average food retail price

Out-performing the pub food and drinks market

Mitchells & Butlers is the largest on-trade caterer in the country, serving over 110 million meals this year. Around two thirds of our sales are generated by a food-related visit and food sales account for almost 40% of our sales mix. The sustained strength of our market leading brands and formats, targeted to meet the needs of an increasing range of customers, provides a clear value proposition and real competitive advantage.

FY 2008 Same outlet like-for-like sales growth

1.0%

FY 2008 Same outlet like-for-like food sales growth

4.9%

In this section: Our business

- Our performance has been resilient this year in tough trading conditions
- Our focus on providing our customers with quality and value is enabling us to make significant market share gains
- The pub market has changed dramatically and we continue to respond successfully to the shift in consumer demands
- Our investment in the amenity, service standards and range is accelerating our market out-performance

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Chief Executive's review of the market and strategy

Tim Clarke
Chief Executive

Mitchells & Butlers performance this year has been robust against the background of a tough year for the pub market as a result of the smoking ban and the weakening customer spending. Despite this, our focus on real value for the customer together with sustained investment in amenity levels and high service standards has enabled us to accelerate our profitable market share gains and announce positive like-for-like sales growth throughout the year.

This review ('OFR') has been prepared in accordance with the Directors' Report Business Review requirements of the Companies Act 1985. It also incorporates much of the guidance set out in the Accounting Standards Board's Reporting Statements on the Operating and Financial Review. All numbers (except where stated) are before exceptional items.

Against the background of the first full year of the smoking ban in England and Wales, weakening customer spending and sizeable cost pressures, Mitchells & Butlers has delivered a robust trading performance with like-for-like sales growth of 1.0% and Group operating profits in line with last year.

This has been achieved as a result of a consumer focused quality and value strategy that has generated profitable sales growth and significant market share gains underpinned by productivity and cost efficiency improvements in the year. Our pricing strategy continues to be deflationary in real terms with average food and drink price increases of 0.8% in the year delivering more value to customers and maximising the cash contribution to the business. This, together with our sustained investment in amenity levels and high service standards has enabled us to accelerate our profitable market share gains. There has been a £16m increase in external costs including duty, the National Minimum Wage, food and energy against which we have successfully reduced our fixed and variable costs by £20m and achieved our highest ever growth in staff productivity of 5.4%. Primarily as a result of this excellent cost management, net operating profits of £343m before exceptional items are flat on last year with net operating margins only slightly down. Earnings per share before exceptional items were 31.5p, down 11.3% on last year, as a result of higher debt levels and interest costs.

Current trading

Current trading has shown a resilient trend in the first eight weeks of the financial year with like-for-like sales up 1.0% to 22 November. Food sales continue to be strong, driven by the success of our new winter menus, and were up 3.5% on a like-for-like basis. Drinks sales have continued their positive growth trajectory being up 0.5% in the period despite the sustained challenges in the on-trade beer market where volumes have fallen 8% over the past quarter. These sales increases have been driven by our value and volume strategy although the overall growth has been restrained by weak machine sales. Like-for-like sales since we last reported (for 51 weeks to September) were up 1.7% for the nine weeks ended 22 November, with a strong final week of the last financial year.

Eight weeks ended 22 November 2008	Like-for-like sales growth
Residential	1.9%
High Street	(0.7)%
Total	1.0%

In the Residential estate, accounting for 76% of our sales, like-for-like sales were up 1.9%, with strong growth across the spectrum of our value, mid-market and premium formats. Our new winter menus have started successfully and over the period there have been some good performances from Vintage Inns, which has continued its rejuvenation started in November last year and from Sizzling Pub Co. and Crown Carveries which have both generated some excellent food and drink growth. Our menu and service enhancements in Harvester have made some initial encouraging progress in both the Early Bird menu and improvements in the trend of the later evening cover volumes.

In the High Street segment, accounting for 24% of sales, like-for-like sales were down 0.7%. This reflects continued strong growth from our central London businesses, combined with a good performance from our Town Pubs outside London, which have been more than offset by very challenging market conditions for the later evening venues.

Outlook and strategy

We remain highly cautious on the outlook for consumer spending in 2009 as the UK economy slides into recession. As a result, we expect continued significant declines in on-trade beer volumes and a contraction in the eating-out market in line with decreases in disposable incomes. Against this demand background, our value and volume strategy is well placed to support a resilient performance in a market driven by value-orientated customers. For instance, the average price of a meal in our pubs is £6.05 and the average price of a pint of standard lager is over 40p cheaper than the average in leased pubs.

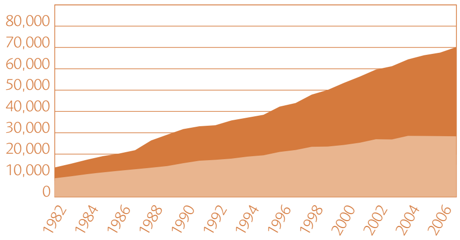
Mitchells & Butlers' sales have proved highly resilient through the first year of the smoking ban and the credit crunch. This has been generated by our ability to grow our food sales per pub by 7.2% in the last year and to out-perform the on-trade beer market by over 5%. We are aggressively driving accelerated market share gains and ensuring that this is profitable activity by focusing on the optimal balance of volume, price and mix to maximise the cash contribution to profit. As a result of this policy and the proactive menu management we expect to significantly mitigate the impact of the input cost increases.

During the year ahead we will continue to face substantial increases from input and regulatory costs. Commodity price volatility remains high and, while there have been encouraging reductions in lead cost indicators primarily in wheat and oil, our input costs on food, gas and electricity have remained at historically high levels. This has been the case in securing our winter requirements at prices which are substantially above the levels prevailing during the first half of last year. As a consequence, we expect a £30m increase in food and energy input costs, heavily concentrated into the first half. We expect those increases to subside and in some cases reverse in the second half as the impact of the recent commodity price declines feed through into our input costs. In addition, there will be a £20m increase in regulatory costs driven by National Minimum Wage and holiday pay increases and by the pre-announced increase in the beer duty.

Chief Executive's review of the market and strategy
continued

The Merlin, Premium Country Dining Group, Alderley Edge

The market – consumer expenditure
Growth per annum 1982–2007 (£m)



	Nominal	Real
Eating-out	8.8%	3.5%
Beer, wine and spirits	4.9%	-0.2%
Total	6.7%	1.6%

Source: ONS n.b. Eating-out market includes soft drinks

We expect these cost increases to continue to be partially offset by further improvements in staff productivity, food margin management, purchasing and other cost efficiency savings, which we are targeting to be in the region of £20m in the year. Our outlet scale, with average EBITDA per pub of £240,000 per annum, as well as our corporate scale, with sales of over 110 million meals and over 500 million drinks, will enable us to maximise the benefits of operating efficiencies and purchasing power to mitigate the impact of these external cost increases.

In relation to the reduction in VAT from 17.5% to 15% we are in the process of passing on in full the benefits of this reduction to our customers on products for resale other than alcoholic drinks as a result of the duty increases.

Taking all these factors into account we estimate that same outlet like-for-like sales will need to grow by around 3% in order to achieve a similar level of retail operating profits as last year.

To assist in the priority of reducing the levels of unsecured debt, we are reducing the levels of expansionary capital expenditure. Compared to last year's total capital spend of £193m we expect to invest around £120m this year. The great majority of this spend, other than £18m for converting the recently acquired Whitbread sites, will be focused on maintaining the existing high standards of amenity within the estate.

Overall, despite the challenges from weakening consumer demand and the external cost pressures, we expect the consumer appeal of our brands, the quality of our well-invested estate, the accelerating market share gains from our value and volume sales strategy and further cost efficiencies, to support a resilient operating performance amidst what are set to remain very difficult trading conditions.

The market

Mitchells & Butlers has consistently executed a strategy to respond to the changing underlying demand trends in the pub and eating-out market in order to generate a long-term sustainable value positioning and a focus on food. This was the basis for the repositioning of our estate and is critical to our continued out-performance of the market over the past five years. The key trends in the market are as follows:

Pub usage is becoming more popular due to the widening consumer appeal of pubs

The popularity and availability of eating-out in pubs has increased over the last 10 years, attracting social groups who were historically either light users or non-users of the pub. The result is that over 80%* of the UK population now visit the pub at least once a year with over 34%* visiting on a monthly basis up from only 15%* in 1980. This development has been fuelled by social and lifestyle changes such as the growth in single households and the female working population as well as the spending power and longevity of a growing retired population. Overall however the number of pub visits has fallen for the market as a whole as the number of drinkers who visit the pub on a regular basis during the week, solely to drink beer, has diminished greatly. This is seen in a substantial fall in the percentage of the UK population visiting the on-trade three times a week from 18%* in 1980 to 5%* now and is driven by a range of factors including changes in male social drinking habits and the low price of beer in the off-trade.

The smoking ban has accelerated these factors and caused a step change in habits with users who previously did not eat out in pubs due to tobacco smoke visiting and lighter users increasing the frequency of their outings to food-led pubs. By comparison, at the same time there has been a further decline in those frequent users who visit solely to drink.

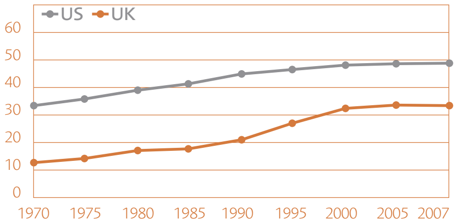
Eating-out is increasingly becoming the reason for visiting, especially value-for-money, casual dining offers

Approximately one third of the total household food expenditure in the UK is spent on eating-out, having grown from around 18% in 1985. Over the last couple of years, we have seen a slowing in the trajectory of this growth, driven in part by weakening consumer expenditure. However, the value-for-money eating-out market has remained in robust growth. Residential pubs, as a result of their proximity to high density housing, relaxed casual dining atmosphere and value-for-money are capturing a significant share of this growth. This performance contrasts with the high street restaurant market which has recently come under pressure as a result of higher price points and low barriers to entry.

Mitchells & Butlers has been able to capture a disproportionate share of the growth in casual dining particularly as 76% of its pub estate is in residential areas with physically large buildings which are also typically on prominent sites with high traffic flows. The size of the pub is important to help generate profitable food sales as a large trading floor space, sizeable kitchens and car parks with good outside space enable considerable volumes of meals to be served driving down the cost per meal significantly. The Company's growth has been assisted by selective acquisitions and disposals which have repositioned the estate to focus on large sites with the scale to cater for high food volumes at attractive prices. Our pubs therefore have average weekly takes almost four times higher than the average UK pub. Last year, for example, we disposed of 82 smaller pubs and hotels with low growth opportunities and acquired 44 high quality Pub Restaurant sites from Whitbread which will be converted to Mitchells & Butlers' industry leading brands and formats during the first half of FY 2009.

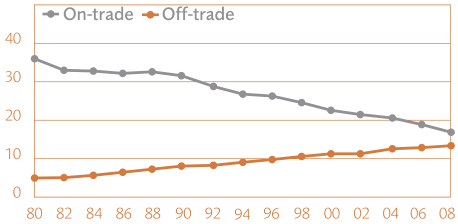
* TNS Alcovision

Eating-out as a percentage of total food expenditure (UK vs US)



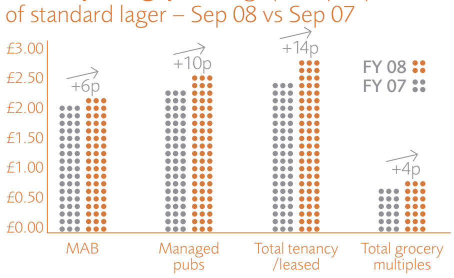
Sources: US: US Dept of Agriculture, Economic Research Service
UK: ONS (Family Spending Survey)

Beer volume: on-trade vs off-trade (Barrels millions)



Source: BBPA. 2008 figure year to July 2008

Drinks price gap Average price per pint of standard lager – Sep 08 vs Sep 07



Source: AC Nielsen

The customer appeal of pub food is expanding

The growth of eating-out in pubs in the 1990s was concentrated in suburban areas with offers focused on middle income consumers.

However, over the last few years, the pub eating-out market has become far more broadly based, with affluent consumers discovering the pub as a venue for enjoyable relaxed eating-out, primarily through the development of gastro-pubs. Similarly, in mainstream markets, those Local Pubs with the size and ability to deliver value and quality food in the heavily populated housing estates are experiencing a rapid increase in demand.

The smoking ban has only reinforced these dynamics and we have therefore focused on developing brands and formats to exploit the growth in both the premium and the value segments. Hence we have expanded our premium country dining format, which caters to more affluent consumers to almost 50 pubs with food sales growth in the year of almost 10%. In the more mainstream market segments we have developed value offers such as Sizzling Pub Co. and Crown Carveries which offer exceptional value for steak and chips or a full carvery meal for under £5, and are now serving over 900 and 3,000 meals per pub per week respectively.

Growth in food-related drinks volumes such as soft drinks, wine and coffee as a share of the total sales mix

The growth in the eating-out market has resulted in a shift in the drinks sales mix with the proportion of products associated with the sale of food, such as soft drinks, wines and coffee increasing. Mitchells & Butlers has therefore focused on developing industry leading drinks retailing and purchasing skills to ensure that it has the product range, serve quality and presentation to stimulate interest and attract new customers. This, along with the strength of our food sales performance, has resulted in significant market share gains in these categories, with wine and soft drinks volumes out-performing the on-trade market by 8% in aggregate in the year.

Continued decline in on-trade beer sales and the growing importance of the off-trade

Consumers have over the past 30 years been steadily substituting drinks purchases in the on-trade for purchases in the off-trade due to highly discounted supermarket offers. Volumes in the on-trade beer market have declined by an average of 3% each year during the period, with total volumes over 50% down from 36m barrels to 17m barrels today. At the same time off-trade volumes have nearly trebled from 5m barrels to 13.5m barrels. In the last year these changes have accelerated as a result of the smoking ban and the substantial increases in beer prices in the on-trade.

The supermarkets' strategy over a number of years of using beer as an advertising tool and traffic builder to increase customer visits has intensified, with deeper discounting in place on a more permanent basis. This is in stark contrast to the on-trade, where, in response to falling volumes and increasing duty and drinks input costs, prices have been raised ahead of inflation, with the price of a pint of standard lager on average 10p higher in managed pubs and 14p higher in leased pubs in September 2008 than in the equivalent month last year. Mitchells & Butlers has however followed a policy of pricing restraint, with a pint of standard lager, at £2.21, costing over 40p less than in leased pubs and 20p less than in the average managed pub. This relative value, allied to the industry-leading quality of Mitchells & Butlers' pubs has generated widening market share gains. It has also resulted in same outlet like-for-like beer volumes during the year being down only 2% and drinks sales returning to growth in the last 10 weeks of the financial year. This compares with on-trade market beer volumes falling by 9% in the same period. Our belief is that there will be a significant opportunity to build further on these market share gains in the future.

Summary

Mitchells & Butlers' resilient performance this year has been achieved amidst a pub market buffeted by a number of challenging external factors. The smoking ban, particularly during the winter period, had a significant impact after its introduction in July 2007 in England and now affects the whole of the UK. This factor on top of the high input cost inflation in drinks, duty, employment, food and utilities together with snow on the Easter bank holiday and another wet summer have resulted in sharp declines in traditional pub usage during FY 2008. Subsequently, the pressures on discretionary consumer spending have substantially increased.

These short and medium-term factors have served to accelerate the reducing viability of a significant proportion of UK pubs which rely solely on drinks sales served at relatively high prices in an environment which often provides low levels of amenity. This has resulted in a ninefold increase in the number of pubs closing in the period since 2006. Our pub business model, by contrast, combines the delivery of quality food with higher margin drinks sales which offer excellent value through appealing formats and generate high sales and profitable growth.

Going forward, our focus operationally remains on continuing to generate profitable market share gains from the value and volume sales strategy and the underlying growth trends in eating-out using the strength of the brand portfolio and the quality of the estate. This strategy will place us in a resilient position to make further market share gains should general economic pressures increase.

Mitchells & Butlers' strategy for growth and business review

Mitchells & Butlers' performance this year has been robust against the background of a tough year for the pub market as a result of the smoking ban and weakening customer spending. Despite this, our focus on real value for the customer together with sustained investment in amenity levels and high service

Chief Executive's review of the market and strategy continued

Harvester, Cardiff Bay

standards has enabled us to accelerate our profitable market share gains and announce positive like-for-like sales growth throughout the year. We estimate that we are now out-performing the pub food market significantly and have consolidated our performance as the on-trade's largest caterer selling over 110 million meals in the year at an average main meal price of only £6.05. In drinks, against on-trade beer market volumes down over 9%, we have delivered like-for-like sales down less than 1% with categories associated with food, such as coffee, wines and soft drinks showing a resilient performance. We have successfully reduced fixed and variable costs by over £20m and achieved our highest ever growth in staff productivity of 5.4% to offset the £16m increase in regulatory costs. As a result of this strong cost management, operating profit was in line with last year and overall net retail operating margins were only slightly reduced against last year.

We have generated this performance through the successful implementation of our operational strategy which is to:

Lead the value-for-money casual dining market

Mitchells & Butlers' continual focus is on building our brands and formats to be the place of choice for customers to visit. The greatest demand today is centred on value-for-money casual dining and our pubs are well placed to take advantage of this growing area. Eating-out has now become the core reason for visiting a Mitchells & Butlers pub with around two thirds of our sales being generated by a food-related visit and food sales alone accounting for almost 40% of our sales mix. This reflects our long-term development of, and investment in, our formats to develop a clear value proposition for our customers across a wide range of demographics and income levels and to generate in turn substantial profit growth from food sales. As a result we have further increased our share of the eating-out market with same outlet like-for-like food volume growth of 8% against a pub market up approximately 2%.

We have seen significant growth opportunities in the mainstream market where our ability to deliver quality meals at good value price points is generating huge demand. Our value food offers in Crown Carveries (average main meal price of £3.94), Sizzling Pub Co. (average main meal price of £4.85) and Cornerstone (average main meal price of £4.07) are some of our fastest growing formats.

Our strength in the casual dining market is best demonstrated by the uplifts achieved in the sites bought from Whitbread in July 2006 and subsequently converted to our brands and formats. The average EBITDA of the 205 converted pubs has now increased by over 50% on a fourth quarter run rate basis from the profitability level when acquired. This has been attained ahead of expectations through the strength of our market-leading brands and formats and the implementation of our value and volume strategy that provides the platform for maximising the profits of each site. This has led to sales increasing by 20% and food volumes rising by 32%. Significant purchasing gains of £8m have also been extracted through these increased volumes. In addition, the introduction of our efficient staff scheduling systems and service training have radically improved staff productivity with employment costs reducing from 32% to 27% of sales. As a result, substantial improvements in profitability have been generated. These Pub Restaurants, together with the further 44 Whitbread outlets acquired on 19 September 2008, are high quality residential sites in prominent locations that offer an excellent opportunity for further long-term growth within the pub eating-out market. We expect that over half of the newly acquired sites will be converted to our brands by Christmas 2008.

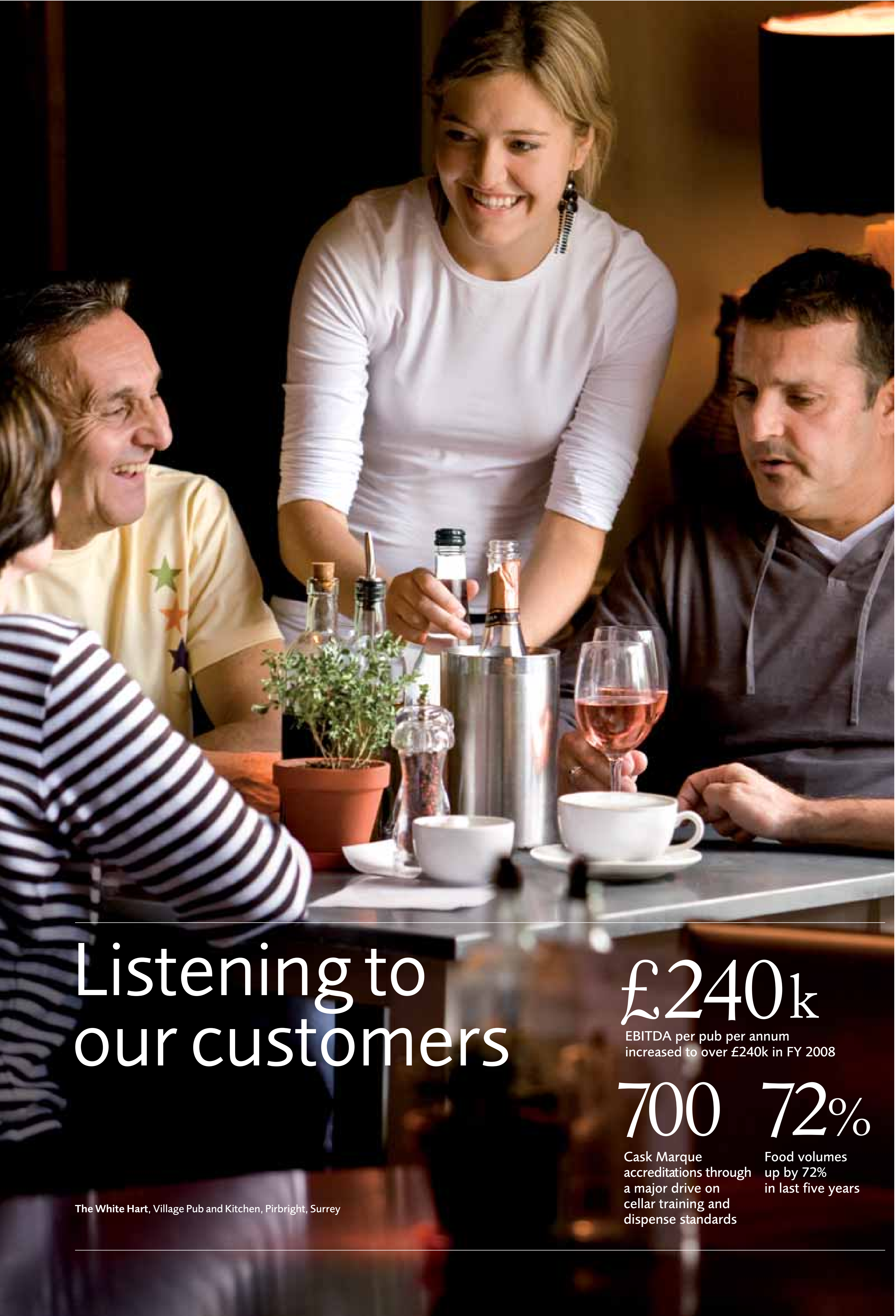
Generate significant drinks market-share gains

We have out-performed almost all of the main categories in on-trade drinks sales in the year, namely beer, cider, wines, and soft drinks. This has been achieved against a depressed on-trade drinks market, with beer volumes down 9% in the period, wines down 5%, soft drinks down 6% and spirits down 7%.

Against this depressed market outlook, we have focused on widening the product range that we offer; improving the serve quality through intensive cellar training and investment in cooling systems; delivering better presentation through attractive glassware; as well as maximising the sales of drinks bought in conjunction with our increasing food volumes. As a result of our strategy to focus on food and other growth areas of the market, beer now constitutes around a quarter of our sales, having accounted for over 70% 15 years ago.

For example, during the year we have concentrated on increasing the range and distribution of the cask ales that we serve, with cask ale volumes having grown by 8.6% in the year on a same outlet like-for-like basis in an ale market which was down almost 10%. In Vintage Inns, for example, almost all pubs now have two or more hand-pulls leading to growth in beer volume and a significant increase in total ale gross profit.

We are also always looking to add interest to our range, with seasonal products such as the organic cask ale Golden Promise (brewed by Caledonian Breweries), which was stocked in Vintage Inns, Ember Inns and Nicholson's in September and a number of Christmas ales such as Santa's Tipple, brewed by Batemans, a family brewer. Both Ember and Vintage Inns have also hosted highly successful beer festivals. Looking forward, we are planning to introduce cask ale into both Toby and Crown Carveries early in the new calendar year, whilst All Bar One will be trialling cask ale in a number of bars. This emphasis has been accompanied by further investment in cellar training with over 1,200 managers having gained their award in Beer & Cellar Quality in the year and over 700 pubs achieving their Cask Marque accreditations.



Listing to our customers

The White Hart, Village Pub and Kitchen, Pirbright, Surrey

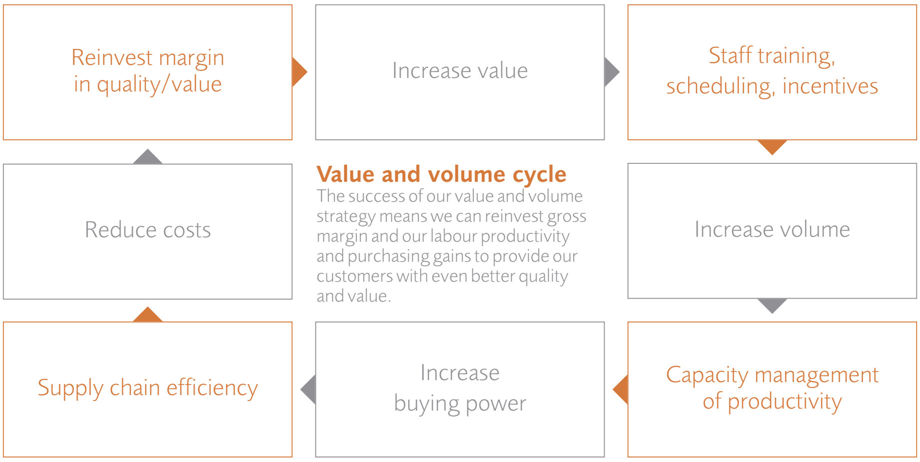
£240k
EBITDA per pub per annum increased to over £240k in FY 2008

700
Cask Marque accreditations through a major drive on cellar training and dispense standards

72%
Food volumes up by 72% in last five years

Chief Executive's review of the market and strategy continued

The Watergate Toll
Toby Carvery, Bolton



Value and volume cycle
The success of our value and volume strategy means we can reinvest gross margin and our labour productivity and purchasing gains to provide our customers with even better quality and value.

In draught cider we have concentrated on providing further choice, and have therefore installed cider pumps in over 120 pubs which had previously not sold the product, with the result that all of our pubs now stock at least one draught cider. The range has been increased to drive interest and premiumisation into the category with products such as Addlestones and Aspalls being installed in addition to a standard cider. Our approach to draught cider has led to some excellent results, with cider volume growing by 12%.

Value also plays a key part in our out-performance with a pint of standard lager costing on average £2.21 in a Mitchells & Butlers pub in September this year, over 40p per pint less than the average in leased pubs. This is despite our average retail drinks prices rising by 2.8% in the year as a result of like-for-like price increases as well as the introduction of new, premium products.

The growth in food sales is resulting in strong associated uplifts in wine and coffee particularly following the smoking ban. We have been extending our ranges with new premium products offering good value, as well as serving own label products and enhancing the serve quality. Hot drinks therefore grew by 7.6% in the period.

In soft drinks we have been extending the range of fresh juices and cordials in our Pub Restaurants. We have also been first-to-market with new dispense equipment for our carbonates which is industry leading in ensuring the consistency of the taste, carbonation and temperature. The roll out of this innovative technology began in April and we have now completed over 500 installations.

Develop and evolve an industry-leading portfolio of formats to drive sales growth

We remain focused on developing and expanding our brands and formats to keep pace with fast changing consumer expectations ensuring that we attract an increasing proportion of new customers and generate higher levels of visits. We have developed and evolved our brands and formats over a number of years through a close understanding of customer preferences and detailed knowledge of how to benefit profitably from these trends. By having clearly differentiated offers targeted to a specific customer grouping, together with regular and sustained levels of capital investment to invigorate and evolve formats, we have been able to create an industry leading portfolio of brands and formats focused on the growth segments of the market.

The success and strength of these brands and formats can be seen in the evolution of well-established formats such as Toby, Vintage Inns, O'Neill's, Nicholson's and All Bar One where incremental improvements to the customer offer have created long term sustainable brands. For example we recently successfully rejuvenated the performance of Vintage Inns thanks to the introduction of new menus with improved quality and value and enhanced training and service standards, allied to an extended drinks range.

Deliver a profitable, integrated food and drink offer

Many of our pubs have prime locations in residential areas and are able to create an informal casual dining experience alongside a strong drinks trade. This requires a carefully thought through pub design, away from the segregation into formal restaurants or traditional pub decor towards sensitively integrated zoning of drink and food areas. This then enables a much more atmospheric and informal social experience where the food occasionality may be at normal mealtimes or at any time throughout the day. In this way our formats are able to take advantage of integrated food and drink offers comprising both higher margin drinks sales and lower margin food sales delivered at a small incremental cost, resulting in attractive increases in profits.

Extract volume driven efficiencies

Our overall pricing strategy continues to emphasise value to customers with average food and drinks price increases of 0.8% in the year. This reflects our focus on maximising the cash contribution to profit from the optimal combination of volume, price and mix in a value sensitive market. As a result there has been strong food volume growth and associated drinks sales, which although putting some pressure on gross margins from the faster growth of lower priced and lower margin products, has increased our purchasing gains. This has enabled our food inflation to be held to only 3% compared with increases of 10% in food costs in the marketplace.

We have successfully reduced fixed and variable costs by over £20m mainly through a meticulous focus on pub level costs as well as continuing efficiencies in the cost base. We have also achieved our highest ever growth in staff productivity of 5.4% through our continuous investment in service training and ever more refined techniques for forecasting and scheduling. These factors have enabled the Company to offset the £16m increase in regulatory costs from drinks duties, the National Minimum Wage, holiday pay regulations and business rates. As a result of this strong cost management, net retail operating margins were only slightly reduced for the year.

Extend the skill base of excellence throughout the estate

We believe strongly that guest satisfaction is critical to driving profit and that the skills and experience of our operating teams both front and back of house provide a real advantage in improving the customer experience. To that end, this year we have initiated a continuous survey of customers' experiences across most of our brands in order to gain direct guest feedback both on the offer and the individual pub. This is giving us a real competitive advantage in spotting and addressing customer preferences and trends.

Operating an efficient business

The Masons Arms, Crown Carveries, Bristol

5.4%
Growth in staff contribution per hour

£20m
Overall fixed and variable cost reduction by end of FY 2008

Chief Executive's review of the market and strategy continued

6 days

This year we invested an average of six days of training per employee

40,000

We currently employ over 40,000 people

The Watergate Toll
Toby Carvery, Bolton

We have also continued to build our staff training programmes and industry-leading practices in the areas of capacity management at peak times, kitchen processes and organisation, bar and floor service productivity, and staff product knowledge. This focus is central to our out-performance of the pub market.

We aim to attract and train excellent people looking to develop their career in licensed retailing. Our wide range of brands and formats mean we can offer a great variety of opportunities to our employees and we provide comprehensive training for all levels of retail employees and management. Background and experience is not as important as having the right personality, enthusiasm and ability. The Company is committed to providing equal opportunity to all employees without discrimination and we are supportive of the employment and advancement of disabled and disadvantaged persons.

We currently employ over 40,000 people and take all necessary steps to ensure our retail management and staff have the skills to perform their roles effectively. We offer real opportunities to build a career within the Company. The development and succession of people who work in our pubs is regularly reviewed by managers and their Retail Business Managers ('RBM's), with training programmes in place to develop individuals in the progression of their careers into more senior roles.

Our 'Stepping Stones' scheme is the building block for retail employee training, where team leader development is supplemented with a workbook, including both back and front of house requirements and on-job and off-job modules. There has been a steady increase in the number of employees completing their Stepping Stones training over the last few years.

Our managers are also trained through the Compass and Management Foundation Course programmes, giving them the essential skills to operate our businesses legally and safely. This year we invested an average of six days training per employee.

Our training programmes not only give our employees the skills to achieve their ambitions but also, crucially, underpin our commitment to operate our businesses safely. We give rigorous training on the responsible retailing of alcohol to give our retail employees the expertise and the confidence to serve our customers correctly. Our retail teams currently refuse service to approximately 70,000 people a month who are unable to provide proof of their age and 17,000 people a month on the grounds of being intoxicated.

The Company aims to fill the majority of our management and RBM positions through internal succession. We deploy a combination of assessment centres, internal development centres, recruitment advertising, interviewing and on-job evaluation to develop potential managers and assistant managers and to help people progress their careers.

The Corporate Graduate Scheme is designed to recruit and develop many of our senior managers of the future and provides some of the most exciting and demanding graduate training in the industry for the around 10 graduates who join us on the scheme each year. This year we won the award for the 'Best Initiative to Attract People into Management' for our Progress Retail Graduate Scheme, at the Springboard UK Awards.

Mitchells & Butlers has a long-established, comprehensive employee communications programme in place, ensuring effective two-way communications between senior management and employees. A formal business forum, at which Executive Directors meet with elected employee representatives to discuss business concerns, takes place annually.

The yearly corporate employee satisfaction survey gauges staff opinion on a wide variety of Company issues and working practices in a confidential manner and provides a continuous objective measure for employee satisfaction and engagement. This year the response rate was again excellent and employee engagement remains high.

Proactively manage the estate to maximise value

Our operational strategy continues to be to maximise the profitability and value of each pub by applying the most appropriate trading format for the local market and demographics, whilst looking to demonstrate the value of the estate through individual pub disposals at high EBITDA multiples.

During the year our focus has been on completing the conversion of the original sites acquired from Whitbread in July 2006. These were completed in the first half, with 205 pubs now converted to our industry-leading brands and formats.

In addition, we have opened six new sites, and carried out 52 conversions and 34 growth projects to change the customer offer or increase the trading area of the site. We are generating a pre-tax incremental return of 16% on these investments over the last two years.

This activity is taking place in an on-trade market where general levels of investment are low; therefore the amenity gap between our pubs and the majority of UK pubs is widening, further improving our relative customer value proposition and supporting continuing market share gains.

In addition, a total of £100m of disposal proceeds at high valuations has been realised during the year, or will be received from unconditional contracts, including £15m from Standard Commercial Property Developments Limited ('SCPD'), our property development unit. This, together with our strong operating cash inflows, has significantly reduced our debt levels since January 2008.

Key performance indicators

Browns, Old Jewry, London

Alignment of remuneration incentives with key performance indicators ('KPI's)

It is a key principle of the Company to align the interests of the Directors and other employees with those of its shareholders. Executive remuneration therefore includes schemes linked to the KPIs below. Same outlet like-for-like growth, EPS and incremental return on expansionary capital are used as performance measures within the Short-Term Deferred Incentive Plan and the amount by which cash return on cash capital employed ('CROCCE') exceeds weighted average cost of capital ('WACC') is one of the measures used within the Performance Restricted Share Plan ('PRSP') scheme.

Total shareholder return ('TSR') is also an important measure of performance for Mitchells & Butlers' shareholders as it combines the increase in the value of the Company's shares with any dividend returns made to shareholders. Mitchells & Butlers' TSR performance compared with its selected comparator group forms the other performance condition used within the PRSP scheme.

For the purposes of remuneration schemes, TSR is calculated over the life of the scheme rather than as an annual measure. Over the last three years, the Company's TSR has declined by 16%, reflecting in large part the recent economic and market pressures and the 45% decline in the leisure sector in the last financial year.

Mitchells & Butlers implements and monitors its performance against its strategy principally through four KPIs. The performance in the year is as follows:

KPI	KPI definitions	Progress in 2008
1. Same outlet like-for-like sales growth	The sales this year compared to the sales in the previous year of all managed pubs that were trading throughout the two years being compared, expressed as a percentage.	Mitchells & Butlers' operational and marketing plans have delivered resilient like-for-like sales growth compared with FY 2007 of 1.0% in FY 2008 (3.0% in FY 2007). The slowing in the growth is as a result of the impact of the smoking ban in England and Wales and a more challenging economic environment.
2. EPS growth	The earnings per share before exceptional items and IAS 39 movements for the year compared to last year as reported in the financial statements expressed as a percentage.	Operating profit in FY 2008 was flat on last year however, as a result of higher debt levels and interest costs following the closure of certain financial instruments in January 2008, earnings per share before exceptional items and IAS 39 movements has decreased by 11.3% to 31.5p per share (increase of 21.2% in FY 2007).
3. CROCCE in excess of WACC	The post-tax cash return on cash capital employed compared to the weighted average cost of capital post tax, where the cash return is earnings before interest, tax, depreciation and amortisation less cash tax that would be charged on operating profit without any tax shield from interest. Cash capital employed is average net operating assets, plus average accumulated depreciation, plus goodwill written off, less the historical revaluation reserve. The WACC is the post-tax weighted average cost of capital, calculated using the post-tax cost of debt during the year and the cost of equity, weighted according to the proportion of the Company financed through debt and equity.	Mitchells & Butlers aims to maximise the difference between the post-tax CROCCE and its WACC, a key measure of value creation. A CROCCE of 10.6% after tax was achieved in the 52 weeks to 27 September 2008, four to five percentage points ahead of the estimated WACC for the year, reflecting good operating performance supported by an efficient use of the balance sheet. (CROCCE was 10.8% after tax in the 52 weeks to 29 September 2007, around four to five percentage points ahead of our estimated WACC for that year.)
4. Incremental return on expansionary capital	Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. Sites are included once they have been trading for three months. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a pub or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a pub.	Our performance in this area has been strong and remains well above our cost of capital and our internal investment appraisal hurdle rates. Pre-tax returns of 16% are being achieved on the expansionary capital projects carried out over the last two years compared with the 20% reported a year ago. This measure excludes the Original Acquired Sites due to the relatively short period of ownership and post conversion trading for all these sites, making it more difficult to estimate seasonal patterns and annualised returns post conversion.

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Financial review

Driving profitable sales and strong cash flows

The strength of our offers, the good demand for food in our pubs and our strong operational performance this year, together with tight cost management, has widened our out-performance of the market. We continue to be highly cash generative with high returns on capital.

Group revenue
£1,908m up 0.7%

£1,908m

Group EBITDA*
£477m up 1.1%
* Before exceptional items and IAS 39 movements

£477m

In this section:
A review of the financial performance of the Company in the year, reviewing specifically

- Performance by division
- Cash flows and net debt
- Property

For our latest financial information
www.mbplc.com/investors

The Albany, Premium Country Dining Group,
Thames Ditton

Jeremy Townsend
Finance Director

Mitchells & Butlers' results for the year to 27 September 2008 reflect a robust operating profit performance with resilient sales growth despite difficult trading conditions.

Summary

In a challenging economic environment, Mitchells & Butlers is well positioned with its value-for-money food and drink offers to deliver robust performance and increased market share gains whilst also achieving continued productivity gains through strong operational management. Investment in the business will continue to be tightly controlled seeking to ensure ongoing returns well above our cost of capital. The business expects to continue to deliver good operating cash flows, enhanced by asset disposal opportunities. In a difficult trading environment, the strength of Mitchells & Butlers' offers, operating model and our improving balance sheet means that we are well placed to take significant market share in the year ahead.

Group results

Total revenue for the financial year was £1,908m, up 0.7% on last year. This was a good trading performance in light of the adverse impact of the first year of the smoking ban in England and Wales as well as the pressures on consumer expenditure and the slight dilution from disposals made in the year.

Against a challenging trading environment like-for-like sales growth was resilient in both Residential and High Street areas, reflecting continued good demand for food in our pubs and Pub Restaurants and a widening out-performance of a declining on-trade drinks market.

Like-for-like sales	Same outlet
Residential	1.5%
High Street	0.1%
Total	1.0%

The repositioning of the estate and its offers over the last 10 years has ensured that Mitchells & Butlers is well placed to benefit from both the long-term structural trend to eating-out and the current customer focus on value. This, combined with the success of our ongoing sales and marketing strategy, has resulted in same outlet like-for-like food sales up 4.9% and drinks sales down only 0.8% in the year. Our overall pricing strategy continues to emphasise value for the customer with average drinks prices only up 2.8% and food down 2.8%. Overall average food and drink prices were up 0.8%, reinforcing our competitive position in a market characterised by above inflation price increases.

Machine sales have been negatively affected by the smoking ban with same outlet like-for-like sales down 6.9%.

As a result of strong food volume increases, there has been some pressure on gross margins (down 1.4 percentage points on last year) from the faster growth of lower priced and lower margin products. Gross margins have also been adversely affected by the increase in drinks duties and food inflation. As we are one of the country's biggest purchasers of beef and poultry this cost pressure has been significant, however utilising our purchasing scale and our food volume growth has enabled us to achieve a food inflation over the year of only 3%.

We have also successfully reduced fixed and variable costs by over £20m in the year and achieved our highest ever growth in staff productivity of 5.4% to offset the £16m increase in regulatory costs from drinks duties, the National Minimum Wage, holiday pay regulations and business rates. As a result of this strong cost management, employment costs were maintained at 24% of sales and overall net retail operating margins at 17.5% were only down 0.4 percentage points on last year.

In total we invested £193m in the year, of which £31m related to the completion of the conversion of the Original Acquired Sites. In addition during the year 21 lodges were swapped for a further 44 Whitbread Pub Restaurants with a valuation of £78m for both sets of assets. £111m was invested to maintain the high levels of amenity in the pubs and in the continuing development and evolution of our brands and formats, £18m related to new acquisitions and £33m was spent on expansionary projects in the existing estate. During the year 6 new pubs opened and 117 existing pubs were converted to one of our brands or formats to uplift their sales and profits.

We have an excellent track record of investing capital for high returns within the business, with our core expansionary investment over the last two years continuing to deliver incremental pre-tax returns of over 16%. A barometer of the strength of our offers, strategy and operational teams is the performance of the Original Acquired Sites which, ahead of target, are delivering EBITDA uplifts of over 50% above the levels at the time of acquisition.

Financial review
continued

(1.4)%
Pubs & Bars revenue

(7.9)%
Pubs & Bars operating profit

(0.4)%
Pubs & Bars like-for-like sales

The Pontefract Castle, Nicholson's, central London

Despite a challenging property market, we continued to take advantage of disposing of assets with low growth prospects in the eating-out market, achieving pub and related asset sales of £82m in the year on EBITDA multiples of approximately 18 times. As a result, net capital investment during the year after disposals was £111m. Although credit market conditions have worsened, we continue to review value creative options in relation to remaining certain other assets, including Innkeeper's Lodges, our German restaurants and Hollywood Bowl .

In addition to the resilient Retail performance, Standard Commercial Property Developments Limited ('SCPD'), our in-house property development company, realised property sales of £15m and profits of £11m in the year. As a result, total operating profit before exceptional items and IAS 39 movements was £343m, in line with last year.

Pubs & Bars

	FY 2008	Growth
Revenue	£954m	(1.4)%
Operating profit*	£176m	(7.9)%
Same outlet like-for-like sales		(0.4)%

* Before exceptional items

After the disposal of 44 managed pubs, 11 transfers to business franchise and two acquisitions, there were 1,081 managed pubs in the Pubs & Bars division at the end of the period, including 26 of the sites acquired from Whitbread. There were on average 1,098 managed pubs trading during the year.

Following the impact of the smoking ban, the challenging consumer environment and the effect of disposals made in the year, revenue was down 1.4%. This result is after including £23m of turnover from the Original Acquired Sites transferred to the division following conversion. Excluding the effect of disposals and the Original Acquired Sites, the underlying Pubs & Bars revenue was flat on the previous year.

Pubs & Bars continued to achieve market share gains in drink and food sales, as a result of the widening gap between our amenity, product range and value-for-money with that of the competition. Food sales in the year were up 12.9% driven by strong growth in a number of formats and most notably Sizzling Pub Co., O'Neill's, Scream and Metropolitan Professionals, as well as our Town Pubs and central London estate.

A total of 50 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co., Ember Inns and the Metropolitan Professionals format.

Pubs & Bars' operating profit of £176m before exceptional items was down 7.9% in the year with net operating margin decreasing from 19.7% to 18.4%, particularly influenced by the cost increases in duty, food and energy.

Restaurants

	FY 2008	Growth
Revenue	£939m	3.4%
Operating profit*	£156m	7.6%
Same outlet like-for-like sales		2.6%

* Before exceptional items

Following the addition of a further 44 Pub Restaurants from Whitbread, the disposal of 14 pubs, and the addition of four individual pubs there were 818 managed pubs in the Restaurants division at the end of the period, including 183 Original Acquired Sites. There were on average 772 managed pubs trading during the period.

The Restaurants division has successfully integrated and converted the Original Acquired Sites over the last two years with significant sales and profits uplifts. It is now rapidly seeking to convert the further 44 pubs acquired to our brands and formats. Excluding the Original Acquired Sites, growth in the core estate in the period was strong despite the increasing economic pressure on mid-market consumers and greater intensity of competition in pub food. Total revenue was up 3.4%, including £178m from the Original Acquired Sites. Excluding the Original Acquired Sites, there were on average 589 pubs trading during the period and in these pubs revenue grew by 1.7%.

Restaurants' operating profit of £156m before exceptional items was up 7.6% on the same period last year, including £30m from the Original Acquired Sites. Net operating margin was up 0.6 percentage points to 16.6%, as a result of improved profit performance and cost management against a period last year where there were significant pre-opening and closure costs. Excluding the Original Acquired Sites, Restaurants' operating profit was down by 2.3% and operating margins declined by 0.7 percentage points.

Property

We have completed a revaluation of our freehold and long leasehold pubs in conjunction with our property valuers, Colliers CRE, based on the market value of each individual pub. The revised total value of the pubs as at 27 September 2008 is £4.7 billion, which includes a decline of 7% on last year's property valuation, reflecting the impact on property values from the credit restrictions and the slowing economic growth. £131m of this movement is reported as an adjustment to the revaluation reserve.

The exceptional impairment charge of £206m reported in the income statement relates principally to a number of wet-led community pubs with limited food capacity and certain late night bars and venues, which have suffered from the impact of the smoking ban. The Company has also identified a number of

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+3.4%

Restaurants revenue

+7.6%

Restaurants operating profit

+2.6%

Restaurants like-for-like sales

The Lyttelton Arms,
Premium Country Dining Group, Stourbridge

assets which it anticipates disposing of within the next 12 months to realise value for the Group. In accordance with accounting guidance, it has adjusted the value of these to their anticipated net realisable value and reclassified them as non-current assets held for sale. This has resulted in an impairment charge arising on classification of non-current assets held for sale of £46m included in the above figure.

We have continued discussions with our advisers and the tax authorities to review the feasibility, costs and benefits of converting to REIT status without breaking the securitisation. However, given the recent HM Treasury announcement to exclude internal re-organisations from the REIT regime, the need for cash conservation and the current Group tax position, we have no plans for adopting any such structure for the foreseeable future.

Exceptional items and IAS 39 movements

Exceptional items are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. Exceptional items are generally those which do not form part of the core operations of the Group. As a result, the Board focuses on 'pre-exceptional' performance measures in order to compare underlying performance year-on-year.

The settlement in January 2008 of the majority of the interest rate and inflation hedging arrangements that the Company entered into in July 2007 in respect of the proposed property joint venture resulted in a post-tax loss of £274m (£386m loss before tax). Of this, £145m (£204m before tax) was reported as an exceptional charge against income in 2007. A portion of the interest rate swaps were retained to provide an economic hedge against the future anticipated cash flows associated with an element of the Group's non-securitised debt as this forms part of the Company's core long-term debt structure. These swaps do not qualify for hedge accounting as defined in IAS 39. The reduction in fair value on these swaps was £17m after tax (£23m before tax) during the year.

The Board concluded a comprehensive strategic review in May 2008 examining all options for realising value for shareholders. The cost of the associated advisers' fees was £9m post tax (£12m before tax), which is disclosed as an exceptional operating charge in the year.

An exceptional post-tax profit of £4m (£6m before tax) was made on individual pub disposals during the year.

Exceptional tax credits totalled £26m, driven by prior year provision releases and a change in the taxation basis for hotels.

Including the impairment charge following the property revaluation, this resulted in total exceptional items and IAS 39 movements of £303m after tax (£417m before tax) in the year.

Finance costs and revenue

Finance costs during the year were £174m before exceptional items and IAS 39 movements, £21m higher than the same period last year, reflecting the effect of the increase in debt associated with the close-out of the interest rate and inflation hedging arrangements. Finance revenue of £7m was achieved on the Group's cash balances, £1m higher than the same period last year. We anticipate an interest cost on the Group's net debt during the current year of approximately 6.4%.

Net finance income from pensions was £3m last year, £8m lower than the previous period due to a decrease in the expected return on the assets in the pension scheme compared to the charge for the liabilities. We currently expect that due to actuarial changes in the expected returns on pension scheme assets and liabilities in FY 2009, a charge to the profit and loss account of £6m will occur.

Taxation

The tax charge for the year was £52m before exceptional items and IAS 39 movements. This is an effective rate of 29% of profit before tax, one percentage point lower than the previous year reflecting a change in the corporation tax rate.

In FY 2009 the Company will utilise a number of tax credits and rebates such that no corporation cash tax will be payable in the year.

Earnings per share

Earnings per share were 31.5p before exceptional items and IAS 39 movements, a decrease of 11.3%.

The loss per share after exceptional items and IAS 39 movements was 43.7p reflecting the exceptional losses on the financial hedges settled in January and the property impairment charge.

Financial review
continued

Philharmonic Dining Rooms
Classics, Liverpool

Cash flow and net debt

Following the closure of the hedging arrangements in January, there has been a high level of emphasis on cash flow generation to restore the strength of the Company's balance sheet. At the end of the year, net debt had reduced by around £175m since January and the ratio of net debt to EBITDA was 5.7 times compared to 6.1 times in January.

The Group's operations continue to be highly cash generative. Cash flow from operations was £486m before exceptional items but after additional pension contributions of £24m. Net capital expenditure was £111m which comprised £31m of expansionary expenditure on the Original Acquired Sites, £51m of core expansionary capital investment, £111m of maintenance capital, less disposal proceeds from pubs and related assets of £82m.

In July, on the strength of its cash flow projections, the Company refinanced and extended its short-term borrowings into a three-year unsecured facility to November 2011. The facility was set to £600m initially, reducing to £550m from December 2008, £400m from December 2009 and £300m by December 2010. As at the year end the drawings on this facility were £514m.

This facility, together with the long-term securitised debt, underpins Mitchells & Butlers' financing requirements and provides an appropriate level of financing headroom as the Company executes its strategic plan over the medium term.

In FY 2008 net interest paid of £164m was £19m higher than the same period last year primarily as a result of higher debt levels in the Company. Tax paid was £4m, £29m lower than the prior year driven by £9m of tax rebates received from HM Revenue & Customs during the period as well as tax credits from the losses on hedging arrangements. As a result, there was a net cash inflow of £147m before exceptional and non-operating cash costs of £412m.

At 27 September 2008, the Group's net debt of £2,735m was £256m higher than the same period last year. This consisted of the securitised debt of £2,361m, non-securitised other borrowings and finance leases of £505m offset by cash balances of £131m.

Treasury management

The financial risks faced by the Group are identified and managed by a central Treasury department. The activities of the Treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The department does not operate as a profit centre.

Pensions

After £24m of additional contributions, there was a pension deficit of £23m before tax at 27 September 2008 under IAS 19. The formal actuarial valuation as at 31 March 2007 indicated a larger deficit of around £250m, reflecting the more conservative gilts basis for discounting future liabilities. The payment of additional contributions during the year reflects a formal recovery plan agreed during the year with the Pension Scheme Trustees to close the deficit on the gilts basis by 2017. As part of this plan, in addition to ordinary annual service contributions, we expect that further contributions of £24m will be made in each of the next two years prior to the next actuarial valuation.

Risks and uncertainties

This section highlights some of the risks which affect the Group.It is not intended to be an extensive analysis of all risks which may arise in the ordinary course of business or otherwise. Some risks may be unknown to the Group and other risks, currently regarded as immaterial, could turn out to be material.

There are certain identifiable potential risks and uncertainties which could have a material impact on Mitchells & Butlers' long-term performance and achievement of its strategy. These arise as a result of market driven, operational, regulatory or financial factors. Mitchells & Butlers adopts a pro-active approach in this area with each member of the Executive Committee managing the specific risks associated with their areas of responsibility together with a dedicated Group Assurance team who report through the General Counsel to the Executive Committee and the Board. A sub-committee of the Executive Committee monitors risks to ensure the appropriate action plans are put in place.

Despite these processes, extraordinary external events may occur very infrequently which by their nature are out of the remit of management control. For example, in July 2007 Mitchells & Butlers and R20 Ltd were in final negotiations with banks to establish a financial package for a property joint venture, aimed at maximising shareholder returns. Establishing hedges on interest rates and inflation rates was a fundamental requirement of the banks to underwrite the junior debt facility and to achieve the appropriate ratings from the rating agencies on the senior debt. Following receipt of written credit-approved debt terms from the banks, Mitchells & Butlers and R20 Ltd separately entered into debt hedging arrangements intended to contribute to the joint venture, to underpin the delivery of a successful transaction. However the 'credit crunch' occurred at this time and debt market conditions suddenly deteriorated resulting in the credit-approved debt terms from the banks being unilaterally withdrawn. This left Mitchells & Butlers and R20 Ltd with hedge instruments in place but unable to fund a transaction.

As highlighted in last year's 'Operating and financial review', these hedges remained in place as the Board believed that it was highly likely that they would be used in future property-based refinancing once debt markets had stabilised. The risks to the Group associated with these hedge instruments were monitored in a close and regular manner consistent with the pro-active and thorough approach Mitchells & Butlers adopts to risk management. In January 2008, following rapid deterioration in the mark-to-market deficit on these hedges and with no prospect of debt markets permitting any property-based transaction, the Company closed out in cash the hedges no longer required at a cost of £274m post tax.

Market-driven factors

Consumer expenditure

Changes in the general economic climate, such as those caused by the global 'credit crunch', can have a detrimental effect on consumer expenditure and therefore Group revenues. More localised economic factors can also have an impact, such as reduced tourist visits to London following terrorist activity.

However, Mitchells & Butlers has around 2,000 individual businesses across the UK and its range of brands and formats target different income and consumer groups mitigating this risk. This wide range of offers provides flexibility to respond to changes in consumer behaviour either through evolving the offer or substituting an alternative operating format or brand at a particular location.

Consumer taste

Mitchells & Butlers pubs and Pub Restaurants compete for consumers with a wide variety of other branded and non-branded pubs and restaurants as well as off-licences, supermarkets and takeaways. The social and demographic changes driving the growth in pub food have been contributing to a steady long-term decline in the on-trade beer market. This decline has been impacted by the pricing policies of the large supermarket groups, with the off-trade in total now accounting for 44% of UK beer sales, and by the introduction of the smoking ban in England on 1 July 2007. Competition in the eating-out market has increased as pubs have responded to the market conditions by introducing food or improving their existing food offers. In response, Mitchells & Butlers has continued developing its food offers and focusing its drinks retailing on generating significant market share gains. During the past five years Mitchells & Butlers has made significant market share gains in both food and drink, with its food sales now accounting for 39% of total revenue, up from 30% in 2003.

Changes in consumer tastes and demographic trends over time may affect the appeal of Mitchells & Butlers' offers. This may be especially so if the Group does not anticipate, identify and respond by evolving its brands, formats, offerings and premises adequately and sufficiently promptly to reflect changes in consumer requirements and preferences.

Mitchells & Butlers has Sales and Marketing Executives for the Pubs & Bars and Restaurants divisions which monitor on a monthly basis, sales trends, all promotional and menu development activity, and the appropriate positioning of Mitchells & Butlers' brands, formats and offerings. This analysis is part of a structured programme for the development and trial of new brands or formats and the evolution of existing offers. Additionally, the Executive Committee reviews the longer-term consumer appeal and relevance of the brands and formats quarterly and initiates action, where required, to respond to changing tastes and trends.

Brand development strategy is incorporated into ongoing estate management reviews to ensure alignment of estate repositioning with brand deployment. A recent example of these processes in action has been the evolution and expansion of Sizzling Pub Co. which has now grown to almost 200 outlets with average weekly sales of over £15k.

Operational factors

Supplier dynamics

Food and drink purchases account for the majority of Mitchells & Butlers' supply costs. Mitchells & Butlers is exposed to the risk of higher food prices depending on world economic conditions, global availability and demand for products. There are some signs that the level of future price increases will be at a lower rate than that seen of late though still subject to volatility. Despite this, as a result of the value and volume strategy that the Group pursues, Mitchells & Butlers has continued to grow food volumes significantly mitigating the majority of increases in the food cost of goods. Also, compared to drink, the larger number of food ingredients and the fragmented nature of food suppliers on the world commodity markets mean that Mitchells & Butlers has a greater opportunity to source food from alternative suppliers.

In drinks Mitchells & Butlers' relative size in the pub and Pub Restaurant sector, particularly following the purchase of the Original Acquired Sites in July 2006, has allowed it to renegotiate supplier contracts successfully thus mitigating the effect of duty increases. Additionally, as the Group's legacy tied drinks arrangements have ended, Mitchells & Butlers has broadened the choice available to customers on favourable terms. Mitchells & Butlers is no longer contractually bound to source minimum purchase volumes from certain suppliers although there are some distribution agreements in place.

Mitchells & Butlers is a large commercial user of gas and electricity and is subject to fluctuations in utility costs (for example, gas and electricity costs rose sharply during the second half of FY 2008 due to global price increases). To reduce exposure to short-term fluctuations in energy prices, Mitchells & Butlers has a rolling programme of forward purchases. An energy awareness team reviews energy usage and works with the business to find ways to promote further efficiencies in energy consumption.

Risks and uncertainties
continued

Service standards
Service standards are a critical component of Mitchells and Butlers' brands and formats and are important for the development of the Group's business with the measurement of direct guest feedback through surveys confirming that the levels of service and retailing standards is a key element in the consumer's choice of pub.

Mitchells and Butlers operates ongoing training for its staff focusing on service quality, food safety and general health and safety and supports this through the operation of a variety of assurance activities including guest satisfaction surveys and operational audits.

Regulatory factors
Mitchells & Butlers operates in a heavily regulated sector. Changes in regulation can have a significant impact upon Mitchells & Butlers' business. Some examples of the regulatory changes which have affected Mitchells & Butlers include:

Smoking bans
Approximately 90% of Mitchells & Butlers pubs are in England where a ban on smoking in pubs came into force on 1 July 2007. Our experience of the second year of the smoking ban in Scotland which came into force in March 2006 may be a useful indicator of possible future trends in England. All the indications are that large, well-invested pubs with the capability to serve high volumes of food will continue to perform well by attracting large numbers of non-users previously put off by tobacco smoke. As a result, like-for-like food sales in the Group's pubs in Scotland have grown a further 7.3% in FY 2008, while like-for-like drinks sales have seen satisfactory growth of 2.1%. However, smaller pubs with limited food capacity and a bias towards beer sales and machine income are likely to suffer.

National Minimum Wage
The National Minimum Wage was introduced in 1999 and has increased by a compound annual growth rate of 5.5% per annum over its first eight years, materially above inflation. However in 2007 the Low Pay Commission indicated that any further increase should remain in line with general wage inflation; consequently in October 2008 it rose by 3.8% to £5.73 (up 21p). In October 2007 new regulatory rules increased the statutory holiday entitlement of all employees from 20 to 24 days, which increased the Group's employment costs.

Mitchells & Butlers has in the past successfully mitigated these statutory increases in employment costs through productivity improvements. These measures have allowed the Group to maintain the ratio of employment costs at 24% of sales in FY 2008.

Licensing
New licensing laws became effective in November 2005. Licensing matters were transferred to local authorities and greater flexibility of opening hours was introduced to allow pub operators to apply to the local authority for permission to change opening hours, subject to objections from local residents, the police and other relevant agencies. These groups have the right to ask the local authority for the premises licence to be reviewed if they believe that the Government's licensing objectives are being compromised. The local authority now has the power to attach further conditions to the licence, reduce trading hours, call for a change in the pub management or ultimately suspend or revoke the licence.

Mitchells & Butlers operates no 24 hour licences and invests heavily in the training of its managers and staff to ensure continued compliance with licensing laws and that its pubs are operated in a responsible manner.

We are currently in detailed preparations for the Scottish licensing law changes from 1 September 2009 to ensure a smooth effective transition across our businesses and to maintain high standards of retailing.

Changes in taxation
Mitchells & Butlers' activities are affected by a number of tax-related matters. These include duty on alcoholic beverages, property rates, VAT and other business taxes.

Mitchells & Butlers ensures it takes appropriate action to minimise the risks from regulation through a number of means including:
- active participation with industry organisations, such as the British Beer & Pub Association and the British Hospitality Association, ensuring that effective lobbying is carried out; and
- continual consideration of operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases or other cost reductions.

Financial factors
Cash flows
The Group has financing in place with sufficient headroom to support the operational focus of the business whilst maintaining an efficient balance sheet. There is a risk however that if there were a material change in the economic climate or other significant financial impact that the business might not be able to fulfil the terms of its financial obligations.

This risk can be mitigated to the extent that the business can reduce its cash costs, primarily by reducing operating costs or reducing its maintenance and expansionary capital expenditure. An example of this is the flexibility that the Company has to reduce its maintenance and capital expenditure to a minimum level for a period of time to conserve cash. This would not be part of the business' long-term strategy but could be effected over the short term to reduce borrowings. In the last financial year Mitchells & Butlers spent a total of £193m on maintenance and expansionary capital which is well above the combined capital and revenue commitments as covenanted within the securitisation financing documents. Alternatively the business can look to other forms of finance such as sale and leaseback or other specific mortgage transactions to meet short-term cash requirements.

Pension funding
Mitchells & Butlers participates in defined benefit pension schemes which give rise to various funding risks. The main risk is the variability of the amount of contributions required to be paid to the schemes by Mitchells & Butlers in order to account for past service benefit deficits and future service benefit accruals. These in turn are impacted at any point in time by changes in life expectancy assumptions, the performance of the stock market, bond yields and inflation expectations.

Recent legislation means that it may be appropriate to approach the Pensions Regulator for pre-clearance of agreements reached with the Pension Trustees at the time of significant corporate transactions. Such clearance may include a requirement to increase the level of funding over a reduced timescale.

Mitchells & Butlers' pension risks have been mitigated by the closure of the defined benefit schemes to new entrants in 2002. As an alternative, a competitive defined contribution pension scheme is now available to eligible new employees. Mitchells & Butlers also maintains a close dialogue with the pension schemes' Trustees and three of the Trustees are appointed by the Company. As a result of the funding deficits in the schemes, the Company has made additional contributions of over £150m over and above the regular service contributions during the last five financial years in order to proactively reduce the deficit. The pension schemes deficit was £23m at 27 September 2008 (£18m at 29 September 2007) on an IAS 19 basis.

The actuarial review undertaken in 2007 showed a deficit as at 31 March 2007 of approximately £250m using the more conservative discount rate agreed with the Trustees. The Company has now formally agreed the recovery plan to close this deficit by 2017, which calls for pension payments of £24m per annum until 2017. The recovery plan is subject to reviews at the next actuarial valuation as at 31 March 2010.

Corporate social responsibility

Mitchells & Butlers' core social responsibility belief is that sustainable business success in the pub sector is achieved through experienced, professional licensed retailing which builds upon the reputation and appeal of each individual pub in its own community.

The Swan, Vintage Inns, Horning, Norwich

We operate in a highly regulated industry and recognise that attached to the legal grant of our licences is a primary obligation, to our customers, investors, employees, suppliers, neighbours and key authorities, to ensure the responsible operation of our premises at all times. Therefore, we strive to ensure that responsible retailing underpins our business operation and culture at every level.

We have consistently responded to the changing demands of both the market and our customers by developing and evolving a range of leading brands and formats to appeal to our customers who want informal and sociable places to eat, drink and meet. We are focused on the long-term growth of informal, value-for-money eating and drinking out.

Please note that the following section provides a summary only of our policies in respect of our corporate social responsibility ('CSR') activity. A more detailed account of Mitchells & Butlers' CSR practices can be found in our separately published Corporate Social Responsibility Review 2008 at www.mbplc.com/csrreview

Corporate governance

Our businesses and employees are part of a wider community, each and all of whom carry the responsibility to act in a way that respects the social, economic and environmental wellbeing of the wider world. Our corporate reputation depends upon us acting in good conscience and behaving with integrity in our dealings with employees, shareholders, customers, suppliers and all other stakeholders.

The Board is responsible for the Company's internal control and risk management system and our Executive Directors and entire Executive Committee have adopted a Code of Ethics to promote honest and ethical conduct throughout our business. The code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers;
- the full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by Mitchells & Butlers plc;
- 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.

In 2007, the Code of Ethics was extended to cover all senior managers within Mitchells & Butlers, so that the highest standards of business conduct apply throughout the senior management level of the business.

In addition, Mitchells & Butlers offers an independently administered confidential hotline, also known as a whistleblowing hotline, for any employee wishing to report any concern that they feel is inappropriate to raise with their line manager. All whistle-blowing allegations are reported to and considered by the Executive Committee and Audit Committee.

The Board takes regular account of social, environmental and ethical matters concerning the Company through the Chief Executive's 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. In addition, a quarterly internal report is submitted to the Executive Committee on CSR activity, which includes responsible retailing practices.

Identification and assessment of risks to the Company's short and long-term value arising from social, ethical and environmental matters are achieved through the Company's Major Risk and Assurance Review, updated regularly and presented to the Board bi-annually. The Board considers, as an intrinsic part of this Review, whether the steps taken to address these risks are appropriate. Opportunities to enhance the Company's value on a sustainable basis are considered as part of that review and at strategy discussions.

The former Mitchells & Butlers Risk Management and Disclosure Forum was this year superseded by an Executive sub committee, the Risk Committee. The Risk Committee's objective is to assist the Executive Committee in the review of the risk management processes and in the consideration of major risks.

Primary responsibilities are to:

- review the operation of the risk management process and report annually to the Executive Committee on its effectiveness;
- consideration of the Company's major and other significant risks and the adequacy of the mitigation actions;
- review and comment on the updates on risks prepared by Group Assurance prior to submission to the Executive and Audit Committees; and
- review and comment on the Group Assurance audit plan prior to submission for approval to the Executive and Audit Committees.

For more detailed CSR information, go to:
www.mbplc.com/socialresponsibility

Corporate social responsibility
continued

Mitchells & Butlers was pleased to have been awarded the title of Britain's Most Responsible Managed Pub Company in both 2005 and 2007 at the Responsible Drinks Retailing Awards.

Challenge 21

The Challenge 21 policy helps our retail teams to prevent underage sales and is firmly embedded in our Company culture.

DRINKAWARE.CO.UK

We are a major funder of the Drinkaware Trust, an independent UK-wide charitable trust, which aims to tackle alcohol-related harms.

BEST BAR NONE

Best Bar None schemes recognise excellence in responsible retailing and, over the last year, our city centre and suburban pubs have won both awards and accreditations in many local schemes. In September 2008, Mitchells & Butlers was pleased to sponsor the first National Best Bar None Conference, to celebrate best practice across the country.

The Board also receives regular updates on significant legislative change or development in corporate governance best practice. The Company's social, environmental and ethical disclosures are reviewed for accuracy through a combination of detailed verification by members of management responsible for the individual areas of corporate social responsibility and high level review by the members of the Board and Executive Committee.

Alcohol and Social Responsibility policy

Mitchells & Butlers was one of the first companies to establish a comprehensive policy for retailing alcohol in a responsible manner. The policy ensures that all of our licensed premises are operated responsibly, safely and within the parameters of the law, providing an inclusive environment for the sensible, controlled sale and consumption of alcohol. Our practices have been widely adopted across the sector.

Our Alcohol and Social Responsibility ('ASR') policy includes clear guidelines on the responsible operation of our pubs, the sale and promotion of alcohol, and our under 18s policy, and is underpinned by our employee training and development programmes, which ensure that this policy lives in all our businesses on a day-to-day basis.

The ASR policy highlights are as follows:

- the Company is committed to the responsible retailing of alcohol and recognises that it is a fundamental part of what we do every day;
- we do not serve alcohol to anyone whom we believe to be intoxicated;
- we do not serve customers whom we believe to be under 18 – nor anyone whom we suspect of passing alcohol to under 18s;
- if a customer looks under 21 we will ask for a recognised form of ID;
- we do not offer any incentives to our customers to drink irresponsibly;
- our staff can easily access information about units of alcohol and alcohol by volume ('ABV') in order to provide that information to guests;
- we value and respect the partnerships our managers have with local authorities; and
- our senior managers are actively involved in setting industry standards and lead by example.

Our ASR policy is updated annually to ensure it remains effective and relevant. Senior management, Retail Business Managers ('RBMs') and pub managers are fully briefed, with each of our businesses receiving copies of the policy booklet and a back-of-house retail staff poster communicating the policy highlights.

In recognition of the design and implementation of this policy, Mitchells & Butlers was pleased to have been awarded the title of Britain's Most Responsible Managed Pub Company in both 2005 and 2007 at the Responsible Drinks Retailing Awards.

Challenge 21

The creation and implementation of a Challenge 21 policy across the estate is a fundamental tool for retail staff to prevent under age sales and deal with such service matters professionally. As a result, the discipline is now firmly embedded in our Company culture.

Our Challenge 21 policy is reinforced through training at both Company and pub level and Company test purchasing visits. We also now have systems in place to register those instances where service is refused because no proof of age can be produced. We record around 70,000 such refusals a month and we also refuse service to some 17,000 people a month believed to be intoxicated; these figures reflect the challenges faced by our retail employees every day.

Our full ASR Policy including the operational guidelines on our under 18s policy is available at www.mbplc.com/socialresponsibility

Pricing and promotions

As part of our ASR policy we have strict guidelines in place regarding the pricing and promotion of our drinks. Any promotional activity must be approved by the Marketing Director and observe the guidelines outlined in our ASR Policy. It is important to note that the promotional practices for which some pubs are criticised today have not been permitted in Mitchells & Butlers pubs for many years.

The guiding principles of our promotions policy are:

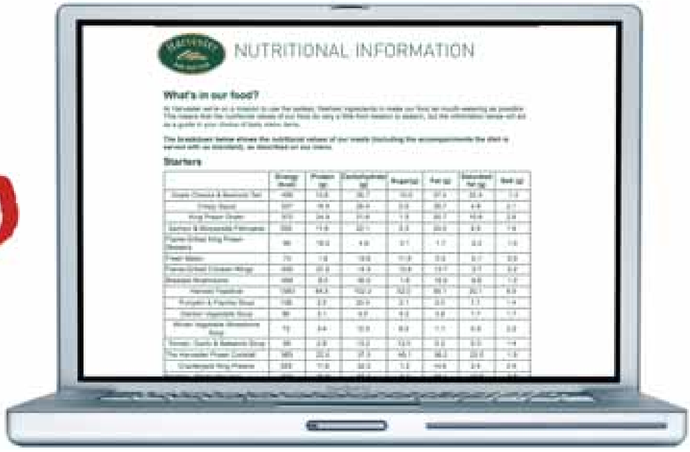
- the maximum serve of spirits in one glass is a double measure;
- no initial payment to obtain reduced price alcohol e.g. 'pay £10 and drink all you can';
- no free alcohol inducements e.g. no '2 for 1s', or 'buy 2 glasses, get the rest of the bottle free'; and
- no time limited promotions e.g. happy hours.

Alcohol awareness

Mitchells & Butlers is a major funder of the Drinkaware Trust, an independent UK-wide charitable trust which has the objective of positively changing public behaviour and the national drinking culture, to tackle alcohol-related harms. Our Chief Executive is a member of the Drinkaware Board of Trustees.

We support the communication of clear, unambiguous information to consumers to help them make better choices about their drinking behaviour. Our ASR Policy includes details of units of alcohol in relation to the ABV of every alcoholic product sold in our pubs, to ensure staff can assist customers who ask for guidance.

Full nutritional information for every item on Harvester's menu is available on its website. The Harvester menu includes the 'healthy heart' icon, helping our customers to make informed choices about healthy options.



On a number of drinks menus we have also incorporated ABV information, as well as signposting the Drinkaware Trust website, which enables customers to access more detailed information on responsible drinking and the hazards of alcohol misuse.

We are supporting the National Schools Project, a British Institute of Innkeeping education project, helping schoolchildren throughout the country understand the growing importance of the hospitality industry and encouraging them to adopt more responsible attitudes to alcohol. Mitchells & Butlers is the first Birmingham partner to sign up to this important initiative and, during 2008, we supported five Birmingham-based schools with classroom materials distributed free to encourage young people to adopt responsible attitudes towards alcohol.

Conflict management

We recognise our responsibility to ensure that our employees work in a safe environment and have the appropriate techniques to deal with issues of conflict if they arise.

Contained within our manager training programme, 'Managing a Safe Environment', is a session which communicates the Company's security policies and procedures, including managing conflict, assessment and reduction of risk, communication skills, escalation, defusing and calming, and post-incident considerations. The session is practically based and uses role-play exercises to allow the delegates to practise in the learning environment. Every new manager receives this training and in addition we organise bespoke in-house courses for any businesses that require specialist training for retail staff.

Industry and relationship building

Mitchells & Butlers is an active member of the British Beer & Pub Association ('BBPA') and has senior managers representing the Company at policy-making level. We played a central role in the formation of the BBPA's former code governing promotional activity, which in turn influenced the creation of the Social Responsibility Standards document, signed by all of the relevant trade associations and launched in 2007 in conjunction with the Home Office.

Mitchells & Butlers supports a number of Business Improvement District schemes ('BID's), including Broad Street, Birmingham and also Nottingham, the first BID solely for, and supported by, the licensed trade.

We strongly support many local Best Bar None schemes and, over the last year, have received a number of awards and accreditations in both our city centre and suburban businesses. In September 2008, we sponsored the first National Best Bar None Conference. This aimed to highlight the benefits of Best Bar None, celebrate best practice and encourage the development of schemes across the country.

It is Company policy for all managers to join and support their local 'Pubwatch', if one exists, which we believe both builds relationships within the area and helps staff identify and resolve potential issues before they escalate.

In addition we have a structured programme to build Whitehall and Westminster relations, meeting regularly with MPs to discuss and promote responsible retailing best practice.

Good food

As the leading operator of around 2,000 managed pubs and Pub Restaurants in the UK, we take our responsibility towards food and nutrition seriously.

Mitchells & Butlers is the largest on-trade caterer in the country, selling over 110 million meals in the UK this year and around two-thirds of our sales are generated by a food-related visit. Our market leading brands and formats have proven strength and longevity and our large, mainly residential pubs have the scale and capacity to serve high volumes of food at low prices. This means that we can offer our customers real value, whenever and wherever they want to eat out.

Our customers are able to access full analytical, nutritional information for every menu item via the Harvester website and a full breakdown for carving deck items on the Toby Carvery website. In addition, our Harvester menu includes the 'healthy heart' icon signposting healthier options with controlled levels of calories and fat.

We continue to work closely with our food suppliers to develop our range of menu items, again with the focus on enhancing nutritional content. We are setting up a series of working parties with our suppliers to discuss nutritional development in line with our Company policy.

We have taken the opportunity, where possible, to incorporate healthy cooking practices into our kitchens, for example offering customers jacket potatoes instead of chips with a meal. In addition we have removed Hydrogenated Vegetable Oil ('HVO') from our frying oil and we have a programme of reducing HVOs in place with our suppliers. Vegetarian options are also available in all of our pubs.

Corporate social responsibility
continued

Toby's focus on locally sourced vegetables means our customers are assured of the freshest, top quality produce. All our growers have to adhere to strict standards.

Case Study: Toby Carvery Chef School

As part of the Year of Food and Farming, Toby Carvery launched a new campaign aimed at teaching schoolchildren about the food they eat and its origins.

Toby Carvery offered pupils a unique behind the scenes experience at its Pub Restaurants up and down the country by enabling them to meet a professional chef, learn about where food comes from and how it is prepared before it reaches the plate.

The initiative was launched with Year five students from Brownhills West Primary School in Norton Canes who were invited to their local Toby Carvery in Cannock to discover more about the journey vegetables make from the farm to their fork, including how and where different vegetables grow.

Head teacher Mr Fairclough said: 'The session was a brilliant way for the children to learn more about healthy eating in a real restaurant environment. The chef school was really well organised and the kids have learnt lots about how to cook different types of vegetable and the nutrients they contain.'

'The session was a brilliant way for the children to learn more about healthy eating in a real restaurant environment.'
Head teacher Mr Fairclough

Toby Carvery, Cannock

We are also working closely with the Food Standards Agency ('FSA') as members of a forum working on best practice and guidance for the family pub industry. In addition we are taking FSA advice to enhance the nutritional content of our menus. We have a salt reduction programme in place and have already adopted the FSA targets on sausages and burgers. We aim to place the FSA salt reduction targets on other product items over the next year.

In addition, we carry out an assessment of the environmental policies and practices of our major food suppliers. All growers supplying the Company are required to meet the established worldwide standard for good agricultural practice, known as the GLOBALGAP Standard or equivalent. This is an integrated agricultural standard primarily designed to reassure consumers about how food is produced on the farm by minimising detrimental environmental impacts of farming operations, reducing the use of chemical inputs and ensuring a responsible approach to worker health and safety, as well as animal welfare.

Furthermore, all of our food suppliers must comply with the British Retail Consortium's technical standard which requires staff to be properly trained and supervised and for the supplier to meet high standards of food safety. More detail on our supplier policies and our Code of Ethics can be found on our website www.mbplc.com/socialresponsibility under the Corporate governance pages.

Environment

Mitchells & Butlers aims to minimise the impact our business has on the environment. This commitment involves our understanding of, and responsibility for, the resources we use and the waste we produce.

Wherever possible, we want to incorporate energy efficient and recycling practices across our businesses and are currently working on a number of projects and systems with the aim of reducing our carbon emissions.

50%

Mitchells & Butlers pubs have recycled 50% more waste in 2008

6,000tns

Over the last year, we have collected 1,800 tonnes of cooking oil, which when converted into bio-diesel, reduces UK carbon emissions by 6,000 tonnes

75%

75% of our estate is now recycling glass and cardboard

We are working to establish a coherent Company-wide energy management strategy, with immediate medium and long-term goals for the reduction of energy usage across our business. We have appointed a Head of Energy, who is responsible for the development and maintenance of Mitchells & Butlers' energy management policies. This includes all aspects of consumption management, business support co-ordination, the assessment of new technologies available on the market and driving the specification of energy efficient equipment.

Monitoring energy usage is a valuable device to help drive significant energy savings. Almost 100% of our estate now has Automated Meter Reading ('AMR') systems installed for managing electricity consumption. We have around 100 sites participating in a gas AMR trial and, dependent upon the results, will seek to expand this over the next year. In addition trials of energy efficient lighting have been underway for some time.

In September 2007 we opened our first 'green' business designed to trial a number of energy saving measures at the Toby Carvery, Banbury. The results of the trial have given us a valuable insight into the performance of the various energy efficient systems and how they work, both in isolation and in relation to each other. Some of these have now been identified as being suitable for inclusion on new build projects and other initiatives can be installed into established pubs. Voltage stabilisers are currently being rolled out to those sites with the highest electricity consumption and the trial of low energy lighting will be extended further across the estate.

We have seen significant improvements in our recycling programme and around 75% of our retail estate is now recycling glass and cardboard. In the past 12 months, over 350 additional sites are participating in cardboard collections and some further 290 sites have commenced recycling glass. Mitchells & Butlers pubs have recycled 50% more waste in FY 2008.

We also collect and recycle waste cooking oil across the entire estate, which is converted into bio-diesel or renewable energy. Over the last year we have collected 1,800 tonnes of used cooking oil from our pubs which, when converted into bio-diesel, reduces UK CO_2 emissions by around 6,000 tonnes per annum.

Health and safety

Mitchells & Butlers complies fully with all relevant health and safety legislation and we understand our responsibility both to staff and customers to ensure safe working practices are in place across our businesses.

The Company requires managers to keep records of all safety checks for food, fire and health and safety. Business and kitchen 'Due Diligence Manuals' are kept on site and managers record safety checks on a daily, weekly and monthly basis. The manuals contain sections for RBMs to inspect and verify the manager's adherence to the Company's safety policies and procedures. They are also audited by an independent specialist company.

Each year we operate designated safety weeks aimed at reinforcing the Company's policies and making our pubs and Pub Restaurants even safer places for our customers and employees. Annually we run two Fire Safety weeks, one Health and Safety week, one Food Safety week, two Licensing weeks and two Security weeks. During these awareness weeks, staff receive appropriate refresher training and specific topics or areas of best practice are highlighted, for example, fire evacuation drills, hazard spotting exercises, food safety messages, Challenge 21 policy and robbery prevention training.

Toby Carvery, Huddersfield

Corporate social responsibility
continued

£242,000

Over the past three years, Mitchells & Butlers has donated £242,000 to the children's charity, Barnardo's

in the heart of the community
Mitchells & Butlers

Each year, our pubs and Pub Restaurants raise thousands of pounds for charity, supporting those causes closest to the hearts of their communities.

'I would like to say thank you on behalf of Barnardo's for the huge efforts which went into making this fundraising possible.'
Rachel Jones,
Barnardo's corporate partnership manager

Case Study – Ember Inns BUPA National Run

120 team members from Ember Inns South joined forces to compete in the BUPA Great Capital Run in July, raising over £50,000 for Barnardo's.

The team, which included Ember general managers and members of the marketing and operations teams, donned their running shoes for the 10km run through Hyde Park.

Retail business manager for Ember Inns, Colin Hawkins, comments: 'Ember Inns pubs are renowned for their fundraising efforts but never before had we attempted anything on such a grand scale.

'Every pub team was busy collecting donations with many going the extra mile by organising additional fund raising activities including sponsored runs and sofa sits, to name but a few.'

Barnardo's corporate partnership manager, Rachel Jones, added: 'I would like to say thank you on behalf of Barnardo's for the huge efforts which went in to making this fundraising possible. We have been genuinely touched by the extent to which both the pub managers and senior management team embraced this campaign. The money raised will make a big difference to children at a grass roots level and everyone involved should feel very proud of what they have achieved.'

Community involvement and charitable donations

Our pubs are long-established at the centre of many local communities. Through our community involvement, charity and sponsorship programmes we aim to encourage, support and enhance our pubs' positive local impact and to build a strong network of community relationships across the UK.

National charitable donations are supported at a corporate level through a centrally managed budget. In addition our selection of Community Award schemes encourages our employees and our pubs to support a charity through their own fundraising activity or voluntary work.

Our pubs and Pub Restaurants raise thousands of pounds for charity every year, and our annual Heart of the Community Awards has been created to celebrate and recognise the efforts of our pub teams in forging good relations with their local communities.

For the third year running Ember Inns' Drink Pink campaign, launched to raise money for national charity 'Against Breast Cancer', has surpassed the previous year's efforts with a fantastic £30,854 being raised. Hollywood Bowl has launched a novel numeracy pack, Cornerstone pubs are selling 'Blackpool' style rock for their chosen Local Pub charity and Harvester businesses are again fundraising for 'Make a Wish Foundation', through a series of balloon launches.

Mitchells & Butlers' relationship with our charity partner Barnardo's came to a close in September 2008 and we celebrated the donation of nearly a quarter of a million pounds to the charity.

We have supported the City of Birmingham Symphony Orchestra for 28 years and our CBSO On the Road community concerts continue to be greatly enjoyed by a wide range of audiences.

Mitchells & Butlers selected Barnardo's as its corporate charity partner in 2005, by launching the 'Routes to a Brighter Future' fundraising campaign. The Company has supported two Barnardo's projects in the Midlands, Dudley Community Routes in the West Midlands and the South West Birmingham Family Project in Bartley Green, and one project in Harrogate, Dr B's Restaurant and Coffee Shop.

Over the past three years, Mitchells & Butlers has donated £242,000 to the children's charity, of which Company employees have helped raise £100,000 by taking part in Barnardo's activities and events. Staff have taken part in marathons, sponsored cycles, a firewalk and a dragon boat race. Most recently 120 Ember Inns managers raised an astonishing £50,000 in one go by taking part in the BUPA Capital Run.

We started a new charity partnership with Marie Curie in October this year. The aim is to focus on regional funding which will engage our mobile workers based across the UK as well as our annual corporate donation, which will go towards nursing hours for Marie Curie at a national level.

Proud of our Midlands heritage, we continue to be keen to support Birmingham and its culture. We have built a portfolio of arts partners to help us establish a comprehensive, robust community arts programme.

We are now entering our 28th year of sponsorship with the City of Birmingham Symphony Orchestra ('CBSO') and were delighted to have been short-listed for a National Arts & Business award in recognition of this long-term relationship. Our CBSO On the Road series of community-based concerts continues to go from strength to strength. We are pleased to be able to expand our support in 2009 through additional funding for the project, to continue to meet the growing audience demand for concerts.

We are again supporting the Birmingham Royal Ballet and we remain an active corporate patron of the Birmingham REP and ExCathedra.

Our role as good neighbours

Our pubs and Pub Restaurants play an important role at the heart of thousands of communities across the UK. As a Company we are committed to encouraging and supporting our businesses in this community role. Through schemes such as Pubwatch, we are able to establish better communication and develop valuable discussion forums for handling and resolving local issues.

Over the last 12 months Mitchells & Butlers has invested significantly in our community pub formats as we believe that by developing a strong network of Local Pubs, we are not only investing in our businesses but also in the pub's role within the community. Whether it's winning a Best Bar None award, creating jobs or providing a meeting point, we recognise the pub really must be an asset to its community to ensure its survival into the next century.

Mitchells & Butlers CSR publications

More detailed information on Mitchells & Butlers' CSR policies and activities can be accessed on the web at:

www.mbplc.com/CSR

The following publications are also available online:

Annual corporate social responsibility review

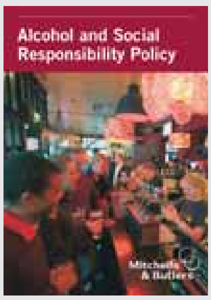
Mitchells & Butlers publishes an annual integrated corporate social responsibility review every December. This report covers five areas that are of key importance to us as a Company, as well as to our customers, employees, local communities, suppliers and shareholders:

- Marketplace
- Employees
- Community
- Environment
- Corporate governance

Alcohol and Social Responsibility Policy

Our Alcohol and Social Responsibility Policy covers our clear guidelines on:

- the responsible operation of our pubs
- the sale and promotion of alcohol
- our under 18s policy



Board of Directors and Executive Committee

Photographed at **The Trout Inn**, Oxford

Board of Directors

1. Drummond Hall, aged 59
Chairman * • ~^

Appointed Chairman on 20 June 2008. He was Deputy Chairman from February 2008 and Senior Independent Director from February 2007, having stepped down from his full-time position as chief executive of Dairy Crest plc in December 2006. Prior to that, he had held marketing positions in Procter & Gamble, Mars and Pepsi Cola, before moving to HP Bulmer plc where he became managing director of the cider and beer division and a member of the group executive. He is a non-executive director of Taylor Nelson Sofres plc and was appointed an operating partner of Duke Street Capital on 1 May 2008, a director of Burton's Holdings Limited on 19 June 2008 and a non-executive director of WH Smith plc on 1 September 2008.

2. Tim Clarke, aged 51
Chief Executive ~†^

Became Chief Executive of the Company on its separation from Six Continents PLC in 2003, having previously been Chief Executive of Six Continents PLC. Between 1995 and 2000 he was Chief Executive of Bass Leisure Retail, which now constitutes the business of Mitchells & Butlers plc. He chairs the Executive Committee. He is a director of the Drinkaware Trust, a non-executive director of the Birmingham Royal Ballet and was appointed senior independent director of Associated British Foods plc on 7 December 2007 having been a non-executive director since November 2004.

3. Jeremy Townsend, aged 44
Finance Director†^

Jeremy Townsend joined the Company in June 2005 as Deputy Finance Director and was appointed to the position of Finance Director in January 2008. He was previously employed by J Sainsbury plc where he held various finance roles including group financial controller, corporate finance director and strategy director. Prior to Sainsbury's he was employed by Ernst & Young working in audit and corporate finance. Jeremy is a Fellow of the Institute of Chartered Accountants of England and Wales.

4. Mike Bramley, aged 57
Managing Director, Pubs and Bars †

Became a Director of the Company on its demerger from Six Continents PLC in 2003. He has been Managing Director, Pubs & Bars since September 2002. In over 20 years with Bass/Six Continents, he worked in a variety of roles in the pubs and brewing businesses. In 1995 he became Commercial Director of Bass Taverns and in 1998 was appointed HR and Commercial Director of Bass Leisure Retail. He was appointed as a non-executive director of Cask Marque Limited on 9 September 2008.

5. Adam Fowle, aged 49
Managing Director, Restaurants†

Became Managing Director, Restaurants on 1 October 2007. Adam rejoined Mitchells & Butlers in March 2005 as Business Development Director, having spent two years with J Sainsbury plc as retail director. Prior to his time at Sainsbury's Adam had worked within the Company for 17 years in a number of operational and strategic roles, latterly as Managing Director for the Pubs & Bars Division.

6. George Fairweather, aged 51
Non-Executive Director * • ~^

Appointed a Non-Executive Director in April 2003, he chairs the Audit Committee. He is group finance director of Alliance Boots, having previously held the same role with Alliance UniChem up until its merger with Boots Group. Earlier appointments were with Elementis and Dawson International, both as group finance director, and before that with Dixons Group and Procter & Gamble.

7. Sir Tim Lankester, aged 66
Non-Executive Director * • ~^

Appointed a Non-Executive Director in May 2003, he is president of Corpus Christi College, Oxford. From 1973 to 1995 he was a member of the Civil Service rising to be deputy secretary of HM Treasury, permanent secretary, Overseas Development Administration, Foreign and Commonwealth Office and permanent secretary, Department for Education. He served as private secretary at 10 Downing Street and represented the UK on the boards of the World Bank and the IMF. He has held non-executive directorships of CU/CGU, the London Metal Exchange and Smith & Nephew and currently is a non-executive director of ACTIS Capital. He is chairman of the board of management of the London School of Hygiene and Tropical Medicine and chairman of the board of trustees of the Contemporary Dance Trust Limited.

8. Sara Weller, aged 47
Non-Executive Director * • ~^

Appointed a Non-Executive Director in April 2003, she chairs the Remuneration Committee. Sara is managing director of Argos Limited having previously been deputy managing director of J Sainsbury plc. Earlier appointments were with Abbey National and Mars Confectionery.

Executive Committee

The Executive Committee consists of nine members, four of whom are Board Directors and five further members who are detailed below.

9. Chris Edger, aged 44
HR Director†

Appointed HR Director in July 2008. Prior to joining the Company Chris taught and researched at Warwick Business School. He was previously managing director of off-trade sales for Coors Brewers and before that Commercial and HR Director for Bass Brewers. Chris has a PhD and is a visiting professor at Birmingham City Business School.

10. Adam Martin, aged 45
Marketing Director†

Adam joined the Bass Group in 1996 becoming Marketing Director of the retail business in 1999. Adam was previously employed at Gemini Consulting and Cadbury Limited.

11. Bronagh Kennedy, aged 45
Company Secretary and General Counsel†

Company Secretary to the Board of Directors, Bronagh is a qualified solicitor and joined the Bass Leisure Retail business in April 1995. She was appointed Director of Legal Affairs in 2000 and HR Director and General Counsel in 2002. Chris Edger was appointed as HR Director in July 2008 and Bronagh will be handing over her responsibilities in this regard to him until he assumes full responsibility for HR from 1 January 2009 onwards. She was previously employed with Allen & Overy.

12. Richard Pratt, aged 53
Commercial Director†

Became Commercial Director in 2002 having joined the Bass Leisure Retail business in 1994 as Catering Retail Director. He previously worked for Diageo plc. He was appointed as a director of GS1 UK Limited on 12 December 2007.

13. Alison Wheaton, aged 44
Strategy and Business Development Director†

Joined the Bass Leisure Retail business in 1997 as Director of Strategic Planning, moving to run Hollywood Bowl before becoming Operations Director of London & Venues. In 2002 she was appointed as Property and IT Director and in August 2008 was appointed Strategy and Business Development Director, retaining her responsibilities for the Property and IT functions. Alison was previously employed by Pepsi Cola, Lever Brothers and Morgan Stanley.

Ages as at 25 November 2008

Key
* – A Non-Executive Director
• – A member of the Audit and Remuneration Committees
~ – A member of the Nomination Committee
† – A member of the Executive Committee
^ – A member of the Property Committee

Reports

This section contains the Company's statutory reports. These comprise:

Directors' report, containing details of the Company's principal activities, changes to share capital during the year and dividend details. It also lists the substantial shareholders in the Company and the Directors who held office during the year. Information on Directors' indemnities, the management of conflicts of interest and contracts with change of control provisions is also given, along with other information required by law.

Corporate governance report, which details the Company's compliance with the Combined Code during the year. It provides information on the Board and committee structure and the steps taken to ensure good internal control. It also details how the Company engages with shareholders. It concludes with a summary of the recent Board evaluation.

Audit Committee report, which outlines the responsibilities of the Audit Committee, the composition of the Committee and the process undertaken to ensure the Committee discharges its responsibilities properly.

Remuneration Committee report, which includes the composition of the Committee as well as details of its advisers, the remuneration policy for Executive Directors and the alignment of this policy with the Company's KPIs. It also details the share plans operated by the Company.

Report of the independent auditors, which is the formal report to shareholders from the auditors giving their opinion on the audit.

Directors' report

Bronagh Kennedy
Company Secretary

The Directors present their report for the year ended 27 September 2008. This Directors' report should be read in conjunction with the Chairman's statement, the Overview and the Operating and financial review (the 'OFR') on pages 2 to 41, including the Chief Executive's review and the Financial review and Corporate governance report (which are incorporated in this Directors' report by reference). Details of the Group's policy on addressing risks are given in the OFR and details about financial instruments are shown in Note 21 to the financial statements. Together these sections include information about the Group's business, its financial performance during the year, likely developments and any principal risks and uncertainties associated with the Group's business.

Principal activities

Mitchells & Butlers is the leading operator of managed pubs and Pub Restaurants, with an estate of 1,993 sites as at 27 September 2008 located in the UK, and with 42 Pub Restaurants in Germany.

Share capital

On 29 September 2007, the Company had 403,779,693 ordinary shares of $8\frac{13}{24}$p in issue. As at 27 September 2008, 404,210,379 ordinary shares of $8\frac{13}{24}$p were in issue and listed on the London Stock Exchange. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on the transfer of these shares. At the year end, 58,191 shares were held in Treasury and the Company's employee share trusts held 1,107,370 shares.

Shareholders passed a resolution at the 2008 AGM to permit the Directors to undertake market purchases of up to 40,306,400 of the Company's shares. This authority will expire at the earlier of the 2009 AGM or 31 March 2009. No shares were purchased by the Company following the AGM.

Shareholders passed a resolution at the 2008 AGM to permit the Directors to allot shares up to a nominal value of £11,476,100. This authority will expire at the earlier of the 2009 AGM or 31 March 2009. Since the AGM, shares with a nominal value of £36,780 were allotted.

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 are set out in the Remuneration report on page 62.

Final dividend

No final dividend will be paid for the year ended 27 September 2008 (2007 10.00p per share). An interim dividend of 4.55p per share was paid on 27 June 2008 (2007 4.25p per share).

Substantial shareholders

As at 25 November 2008, the Company had been notified of the following beneficial interests (3% or more) in its shares:

Piedmont Inc	21.77%
Elpida Group Ltd	13.14%
Deutsche Bank	6.98%
BNP Paribas Arbitrage Snc	4.38%
Legal & General	4.03%
Violet Capital Group Ltd*	3.34%
MF Global UK Limited	3.24%

* This interest is held through contracts for difference

The Board's responsibilities include:

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

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

Directors

Details of the current Directors and their biographies are shown on pages 40 and 41.

During the year, the following changes took place:

Director	Resigned	Appointed
Tony Hughes	31/12/07	
Karim Naffah	29/01/08	
Roger Carr	20/06/08	
Adam Fowle		01/10/07
Jeremy Townsend		31/01/08
Aaron Brown*		20/06/08
Tim Smalley*		20/06/08

* Following the year end, on 8 October 2008, Aaron Brown and Tim Smalley resigned from the Company

Directors are appointed in accordance with the Articles of Association which stipulate that any Director appointed during the year must stand for reappointment at the next Annual General Meeting. A Director appointed during the year will not be counted in determining who should stand for reappointment by rotation. Directors must submit themselves for re-election at least every three years. There were no payments made during the year as compensation for loss of office.

Directors' indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Conflicts of interest

The Articles of Association were amended at the 2008 AGM with effect from 1 October 2008 to permit the Board to consider and, if it sees fit, to 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, and they may impose limits or conditions when giving authorisation or subsequently if they think this is appropriate.

With effect from 1 October 2008, the Board authorised, subject to certain conditions, the Situational Conflicts of Aaron Brown and Tim Smalley who, as representatives of R20 Ltd, were associated with Violet Capital Group Ltd, then the Company's largest shareholder.

Related party transactions

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

Change of control provisions

The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company:

- a £600m unsecured term and revolving facilities agreement as described more fully on page 30; and
- three retained swap agreements with an initial notional amount of £225m as described more fully on page 29.

Under the terms of each of these agreements a 'change of control' occurs if any person or group of persons acting in concert gains control of the Company.

There are no provisions in the Directors' service agreements nor in any employees' contracts providing for compensation for loss of office or employment occurring because of a takeover.

Employees

The Group employed an average of 40,774 people in 2008 (2007 42,741). Details of the Group's employment policies are shown on pages 22 to 24 of the OFR.

Employee engagement

Mitchells & Butlers is keen to encourage employee participation in the Group's success through share ownership and operates the following share plans:

Sharesave Plan

In June 2008, options were granted to 1,518 employees over 2,012,994 shares at 259p per share, a 20% discount on the market price. On 1 October 2007, the Company's 2004 Sharesave offering matured and 644 employees were able to exercise options over shares priced at 209p per share.

Share Incentive Plan

During the year 469,004 shares were allocated by the Share Incentive Plan Trustee as free shares to 8,681 eligible employees subject to the plan rules. Employees can instruct the Trustee to exercise votes attaching to these shares at a General Meeting.

Executive Share Option Plan

This plan was discontinued in 2006 and no awards have been made under this plan since then.

Performance Restricted Share Plan

During the year, 61 employees were granted nominal cost options which will vest subject to the achievement of performance conditions as set out on page 55. 935,922 shares under option vested during the year.

Short-Term Deferred Incentive Plan

Under the terms of this plan and at the discretion of the Remuneration Committee, Directors may receive 50% or more of their annual bonus as shares the vesting of which is deferred for three years. A matching award of shares may be made by the Company, again at the Remuneration Committee's discretion, which is also deferred for a three-year period and is released subject to the satisfaction of a three-year performance condition.

172,930 shares were released under this plan during the year. The Executive Directors' maximum accrued matching share entitlements for future release are set out on page 59.

Full details of all of these plans are included within the Remuneration report on pages 54 to 56.

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.

At 27 September 2008, the position under the '5% in 10 years' limit for discretionary plans was that shares equivalent to 2.7% of the ordinary share capital had been allocated and under the '10% in 10 years' limit for all share plans was that shares equivalent to 4.1% of the ordinary share capital had been allocated.

Health and safety

It is important to the Group to provide and maintain a safe environment for all employees, customers and other visitors to its premises. The Group complies with relevant health and safety legislation. Details are included on page 37 of the OFR.

Environmental and social responsibility
Mitchells & Butlers recognises that it is part of a wider community and recognises that it has a responsibility to act in a way that respects the environment and the social wellbeing of others. A summary of the Company's approach to these issues is set out on pages 33 to 39 of the OFR.

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

The policy of its principal operating subsidiaries is to agree particular terms with major suppliers and to abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in the month following that in which the subsidiaries receive a valid invoice. The average number of days the Group takes to pay an invoice is 39 days.

Charitable donations and charitable activity
The Company continues to support community initiatives and charitable causes, full details of which are given on page 38 of the OFR.

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 2009 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Going concern
The financial statements which appear on pages 65 to 98 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Annual General Meeting
The notice convening the Annual General Meeting to be held at 11am on Thursday, 29 January 2009 is contained in a circular sent to shareholders with this report. This meeting will be held at the International Convention Centre in Birmingham. At the meeting, resolutions will be proposed to renew the authority to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. Resolutions to make certain amendments to the Articles of Association are proposed to change the Company's borrowing limits and to bring the Company's Articles of Association in line with the Companies Act 2006. Full details of these resolutions are provided in the shareholder circular.

Auditors
Ernst & Young LLP have expressed their willingness to continue in office as auditors of the Company and their reappointment will be put to shareholders at the AGM.

By order of the Board
Bronagh Kennedy
Company Secretary
25 November 2008

Directors' responsibility statement
The Directors are responsible for preparing the Annual report, the Remuneration report and the financial statements (Group and Company) in accordance with applicable laws and regulations. UK company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and applicable law. Further, they have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law ('UK GAAP'). The financial statements are required by law to give a true and fair view of the assets, liabilities and financial position of the Group and the Company and of the Group's income statement for that period.

In preparing the financial statements, the Directors are required to:
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors confirm that the Directors' report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Acts 1985 and 2006 and, with regard to the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for the system of internal control for safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

A copy of the financial statements of the Company is posted on the Company's website www.mbplc.com. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors
Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are 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 auditors are aware of that information.

By order of the Board
Bronagh Kennedy
Company Secretary
25 November 2008

Corporate governance report

Drummond Hall
Chairman

Corporate governance report

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business. It is committed to compliance with the principles of corporate governance as set out in the Combined Code on Corporate Governance (the 'Combined Code'). The Board considers that the Company has complied throughout the year ended 27 September 2008 with all the provisions of the Combined Code, except those in respect of Board composition and the Senior Independent Director as described below.

Board composition

At the start of the year, the Board comprised the Non-Executive Chairman, four independent Non–Executive Directors and four Executive Directors.

During the year, various changes were made to the composition of the Board. Tony Hughes, Managing Director, Restaurants retired on 31 December 2007 and Adam Fowle was appointed to the Board to replace him on 1 October 2007. During this handover period there were five Executive Directors and four independent Non-Executive Directors on the Board, excluding the Chairman.

On 29 January 2008, Karim Naffah resigned as Finance Director and on 31 January 2008 Jeremy Townsend, who was previously the Deputy Finance Director, was appointed as Finance Director.

The Company instigated a strategic review which was completed in May 2008. This review concluded that the Company should pursue the implementation of a REIT or other appropriate OpCo/PropCo structure to ensure that the value of both the property and the operating business were more fully captured for shareholders. In order to support this strategic objective, the Nomination Committee sought to augment the property expertise on the Board. Although an external agency would normally be used for non-executive appointments, the Nomination Committee recognised the interests of the Company's major shareholder and the specific property expertise of Aaron Brown and Tim Smalley, both from R20 Ltd. Accordingly, it recommended their appointment to the Board as Non-Executive Directors. Aaron and Tim joined the Board on 20 June 2008. Because of their association with Violet Capital Group Ltd, the Board concluded that neither Aaron nor Tim should be determined independent. After the year end and following the disposal by Violet Capital Group Ltd of its significant shareholding, both Aaron and Tim immediately stepped down from the Board on 8 October 2008.

Neither Aaron Brown nor Tim Smalley sat on the Audit, Remuneration or Nomination Committees. As the calibre of the independent Non-Executive Directors is extremely high and due consideration was given to the interests of shareholders as a whole, the Board is satisfied that the Combined Code requirement to take decisions objectively in the interests of the Company was met throughout the year.

Drummond Hall, who became Deputy Chairman on 26 February 2008, was appointed Chairman of the Board on 20 June 2008 replacing Roger Carr who resigned on that date. Although neither an external search company nor open advertising was used in making this appointment, the Nomination Committee explicitly considered the prospect of recruiting an external candidate when Roger Carr advised the Board that he intended to step down but decided that, on balance, Board continuity and stability were more important. The Nomination Committee, having considered his existing appointments, recognised that Drummond had the appropriate knowledge of the business and experience to take on this role and recommended to the Board his appointment as Chairman. Roger Carr was not involved in the selection of the new Chairman.

The Board now consists of the part-time Non-Executive Chairman, four Executive Directors and three independent Non-Executive Directors. A recruitment process, led by the Nomination Committee using an external agency, is underway to effect an appropriate balance between the independent Non-Executive Directors and

Corporate governance report

The Board is responsible for ensuring compliance with the Combined Code. 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.

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the Executive Directors on the Board. This process is expected to be completed during the year.

Board and committee structure

To support the principles of good corporate governance, the Board and committee structure operates as set out below.

The Board

During FY 2008 there were 22 Board meetings including a two day off-site meeting which considered the Group's strategy. As certain meetings were called at short notice, Tony Hughes was unable to attend one meeting and George Fairweather and Sir Tim Lankester were unable to attend four and three such meetings respectively. Where a Director was unable to attend a meeting, he was provided with all the papers and information relating to that meeting and was able to discuss issues arising with the Chairman and Chief Executive. There are nine Board meetings and one supplementary meeting currently planned for 2009.

The Board is responsible to shareholders for the strategic direction, development and control of the Group. It therefore 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 Board has established a schedule of matters which are reserved for its attention which are published on the Company's website.

The Board has adopted objective written criteria for the appointment of Directors and the roles of the Chairman, Chief Executive and Non-Executive Directors have been defined in writing.

The Executive Directors may be permitted to accept one external non-executive director appointment with the Company'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 its committees 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. During the year, the Company Secretary facilitated a comprehensive induction for the newly appointed Directors, tailored to individual requirements.

Directors

The following were Directors of the Company during the year:

		Appointed	Resigned
Roger Carr	Chairman	10/02/03	20/06/08
Tim Clarke	Chief Executive	10/02/03	
Mike Bramley	Managing Director, Pubs & Bars	15/04/03	
George Fairweather	Independent Non-Executive Director	15/04/03	
Tony Hughes	Managing Director, Restaurants	15/04/03	31/12/07
Karim Naffah	Finance Director	15/04/03	29/01/08
Sara Weller	Independent Non-Executive Director	15/04/03	
Sir Tim Lankester	Independent Non-Executive Director	16/05/03	
Drummond Hall	Chairman (from 20/06/08)	30/07/04	
Adam Fowle	Managing Director, Restaurants	01/10/07	
Jeremy Townsend	Finance Director	31/01/08	
Aaron Brown*	Non-Executive Director	20/06/08	
Tim Smalley*	Non-Executive Director	20/06/08	

* Both Aaron Brown and Tim Smalley resigned from the Board after the year end on 8 October 2008

Current Directors' biographical details are set out on pages 40 and 41 and these include their main commitments outside the Company.

The Company ensures that Directors submit themselves for re-election at least every three years.

George Fairweather, Sir Tim Lankester and Tim Clarke will retire by rotation and offer themselves for reappointment at the 2009 AGM on 29 January. Jeremy Townsend, having been appointed since the last AGM, will also stand for reappointment at the 2009 AGM.

More information about the Directors standing for reappointment is set out in the AGM Notice.

Details of the Executive Directors' service contracts are set out on page 53 and are available on the website. The Chairman and the Non-Executive Directors have letters of appointment which are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

Chairman

Drummond Hall is the Chairman of the Board. He ensures that appropriate communication is maintained with shareholders. He has responsibility for the smooth running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He also chairs the Nomination Committee.

Chief Executive

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

Senior Independent Director

Drummond Hall relinquished the position of Senior Independent Director on his appointment as Chairman of the Board on 20 June 2008 when Roger Carr resigned. It is expected that following the appointment of a new independent Non-Executive Director, this position will be filled.

Non-Executive Directors

The Company has experienced Non-Executive Directors. In addition to the Chairman, who was independent upon his appointment, the Board considers Sara Weller, George Fairweather and Sir Tim Lankester to be wholly independent as they are free from any business or other relationship which could materially influence their judgement and they represent a strong source of advice and independent challenge. In addition, from 20 June 2008 to 8 October 2008 there were two Non-Executive Directors, Aaron Brown and Tim Smalley who, because they were connected to the Company's largest shareholder at the time, Violet Capital Group Ltd, were not regarded as independent.

Other than their fees which are disclosed on page 58, the independent Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

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

Committees

The Committees of the Board each have written terms of reference approved by the Board, which are available on the Company's website.

Audit Committee

The Audit Committee, which is chaired by George Fairweather, consists of the three independent Non-Executive Directors. Drummond Hall was a member of this Committee until his appointment as Chairman of the Board. The Chairman of the Board, the Chief Executive and the Finance Director attend at the invitation of the Committee's Chairman. During FY 2008 the Committee met four times.

Further details about the Committee are included in the Audit Committee Report on page 50.

Remuneration Committee

During the year, the Remuneration Committee, which is chaired by Sara Weller, comprised the independent Non-Executive Directors and the Chairman. This Committee met seven times during FY 2008.

Further details about the Remuneration Committee are included in the Remuneration report on page 52.

Nomination Committee

This Committee consists of the Chairman of the Board, who chairs the Committee, the independent Non-Executive Directors and the Chief Executive. The Company Secretary is secretary to this Committee. The terms of reference for this Committee are consistent with the requirements of the Combined Code. The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning and reviewing the output of the Board effectiveness review.

It met three times during the year to consider *inter alia* succession planning and to recommend the appointment of Drummond Hall as Chairman. It also recommended the appointment of Jeremy Townsend as Finance Director. The Committee considered whether it was appropriate to have representation from the Company's major shareholder on the Board and the necessity of strengthening the property experience of the Board and, accordingly, it recommended the appointments of Aaron Brown and Tim Smalley to the Board.

There was full attendance at each meeting, except that Roger Carr and Drummond Hall did not attend the meeting to consider the Chairman's appointment.

Property Committee

The Property Committee consists of the Chairman of the Board, the Chief Executive, the Finance Director, an independent Non-Executive Director and up to two further Non-Executive Directors of the Company. The Company Secretary is secretary to the Committee. The Property Committee was constituted in July 2008 following the strategic review, and it provides advice and assistance to the Board on the implementation of its strategy to effect the optimum realisation of the Company's property value. The Committee also provides advice and assistance to the Board in its evaluation of property-related aspects of any transactions in excess of £4m in value. This Committee has met once since its formation in July 2008.

General Purposes Committee

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

Disclosure Committee

The Disclosure Committee considers and decides upon matters brought to its attention, which would be likely to give rise to an obligation to make a market announcement under the UKLA Listing Rules. It comprises the Chief Executive, the Finance Director, the Director of Investor Relations and the Company Secretary.

Executive Committee

The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives as shown on pages 40 and 41.

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

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

Independent advice

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

Internal control

The Board is responsible 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 Combined Code, including clear operating procedures, lines of responsibility and delegated authority. These procedures have been in place since the Group was listed and are regularly reviewed by the Board. In particular, the Board conducted a thorough review of its processes following the closure of the hedges in January 2008. The review recognised the role of the Non-Executive Directors in constructively challenging Board proposals and the importance in identifying potential conflicts in managing the Company for the benefit of shareholders as a whole.

Business performance is managed closely and the Board and the Executive Committee have established processes, as part of the normal good management of the business, to monitor:

- strategic plan achievement, through a comprehensive series of strategic reviews;
- financial performance within a comprehensive financial planning and accounting framework;
- capital investment and asset management performance, with detailed appraisal, authorisation and post investment reviews;
- consumer insight data and actions to evolve brands and formats to ensure that they continue to be appealing and relevant; and
- risk management, through an ongoing process, which accords with the Turnbull Guidance and provides assurance, through reports from Group Assurance, that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

- reports from Group Assurance on the work carried out under the annual internal audit plan; and
- reports from the external auditors.

Through the monitoring processes set out above, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 27 September 2008. 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, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and the Board is not aware of any change to this status up to the approval of this Annual report.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The Group regularly reviews both the type and amount of external insurance that it buys, 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 interim and preliminary results in May and November respectively, the interim management statements in January and July and a pre-close trading update in September. The Company has a regular programme of meetings with its major institutional shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Company also commissions an independent survey of investors each year to determine external views of the Company, the feedback is then used by the Board to inform the Company's future direction. On a more informal basis, the Chairman, the Chief Executive and the Finance Director regularly report to the Board the views of major shareholders about the Company, and the Non-Executive Directors are available to meet shareholders on request. The content of these briefings is posted and webcast on the Company's website, together with general information about the Company so as to be available to all shareholders.

The AGM provides a useful interface with private 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. The chairmen of the Audit, Remuneration and Nomination committees attend to answer questions.

Board effectiveness evaluation

This year the Board carried out a formal Board Governance Assessment including a review of the membership and effectiveness of its principal committees and of the performance of individual Directors with the assistance of Professor Goffee of the London Business School.

The process included the completion of a detailed questionnaire by each Board member and included an opportunity to make comments. The areas covered were the Board's role and its organisation, the Board dynamic and relationships, quality of information flows and decision-making, Board committees, performance monitoring and Board priority tasks.

The output was compiled into a report prepared by Professor Goffee which he presented to the Board and which was considered by the Nomination Committee. The Chairman subsequently discussed this output with the Chief Executive and the Non-Executive Directors and the Chief Executive discussed it with the Executive Directors.

The evaluations concluded that the Board and its committees continued to be effective and that all Directors had a good range of experience, contributed effectively to Board discussions and retained a high level of commitment to their roles.

During the year the Non-Executive Directors met without the Executive Directors present, and the Non-Executive Directors also met without the Chairman present, led by Sara Weller, to appraise the Chairman's performance. The outcome of this appraisal was positive and confirmed that he remained committed to, and devoted sufficient time to, his role.

Audit Committee report

George Fairweather
Chairman of the Audit Committee

The Company's Audit Committee (the 'Committee') has met the requirements of the Combined Code on Corporate Governance throughout the year. A copy of the Committee's terms of reference is publicly available within the Investors section of the Company's website.

Role of the Audit Committee

The Committee's principal responsibilities are to:

- review the Company's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- 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 auditors any financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the Group Assurance function;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditors, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditors and the fees to be paid for that work together with the monitoring of the external auditors' independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for the Executive Directors, the Executive Committee and all other senior managers which is consistent with the Company's overall statement of business ethics.

Audit Committee composition

The Committee is chaired by George Fairweather who, as a Chartered Accountant and the finance director of a former FTSE 100 company, has current and relevant financial experience and is considered to be the Committee's financial expert. The Committee's other members are Sir Tim Lankester and Sara Weller. Drummond Hall was also a member until his appointment as Chairman of the Board. The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board, but, reflecting recommendations within the Smith Guidance, he is not a member of the Committee but attends at the invitation of the Committee's Chairman. The Committee regularly invites the external auditors, the Chief Executive, the Finance Director and the Director of Group Assurance & Risk to its meetings. The Company Secretary attends and is secretary to the Committee. Discussions are held in private when appropriate. All of the Committee's members are independent Non-Executive Directors.

The Audit Committee's responsibilities include:

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

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Audit Committee frequency

The Committee meets at least four times a year. During FY 2008 four full meetings of the Committee were held and all members attended each of these meetings.

Audit Committee process

The Committee discharges its responsibilities, as defined in its terms of reference, through a series of Audit Committee meetings throughout the year at which detailed reports are presented for review. The Committee commissions reports from external advisers, the Director of Group Assurance & Risk, or Company management, either after consideration of the Company's major risks or in response to developing issues. The Committee meets privately with the external auditors and the Director of Group Assurance & Risk at least four times a year and liaises with Company management in considering areas for review.

During the year, the Committee considered the following matters:

- interim and full year financial results;
- the scope and cost of the external audit;
- non-audit work carried out by the external auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- the scope of the annual internal audit plan, the Internal Audit department's terms of reference, its resourcing and external support;
- the external auditors' interim and full year reports;
- periodic internal control and assurance reports from the Internal Audit function;
- the effectiveness of the external auditors and consideration of their reappointment;
- periodic reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures;
- the effectiveness of the Internal Audit function;
- the appointment of a new Director of Group Assurance & Risk;
- management representations granted to the external auditors and the Company's procedures to ensure all relevant audit information has been disclosed;
- major changes in the Group's internal controls;
- the co-ordination of the internal and external audit functions;
- the Group's framework for the identification and control of major risks, its Risk and Assurance Mitigation Plan and the annual assessment of control effectiveness;
- compliance with the code of ethics for the Executive Directors, other members of the Executive Committee and all other senior managers;
- corporate governance developments;
- review of the suitability of the Group's accounting policies and practices;
- the status of material litigation involving the Group; and
- the Committee's own terms of reference, membership and its effectiveness.

The Company's public financial statements are reviewed by the Committee in advance of their consideration by the Board. Adequate time is allowed between the Committee's review and the Board's approval for any actions or further work requested by the Committee to be completed.

External auditors' independence

The Committee has adopted a policy on the use of the external auditors for non-audit work which is in compliance with the Combined Code. The external auditors may carry out certain specified non-audit work in areas that have been pre-approved by the Committee, up to a monetary limit of half the audit fee per transaction and subject to an annual total cap of no more than the audit fee. Any other work for which management wishes to utilise the external auditors must be approved by the Committee. In this regard the Committee specifically considered and approved management's request to use Ernst & Young for one transaction during the year where management considered that Ernst & Young were best placed to provide the service, having evaluated the relevant knowledge base and cost effectiveness of using other firms.

Approved by the Board
George Fairweather
Chairman of the Audit Committee
25 November 2008

Remuneration report

Sara Weller
Chairman of the Remuneration Committee

This report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. It complies with Schedule 7A to the Companies Act 1985, the Combined Code on Corporate Governance (the 'Combined Code') and with the UKLA Listing Rules. Throughout this report, references to the year are to the 52 week period ended 27 September 2008. This report will be put to shareholders for approval at the forthcoming AGM to be held on 29 January 2009.

The Remuneration Committee

Throughout the year, the Committee consisted of the following Non-Executive Directors:

- Sara Weller
- George Fairweather
- Drummond Hall
- Sir Tim Lankester

In addition, Roger Carr was a member of the Committee until 20 June 2008 when he stood down from his role as Chairman of the Company.

Sara Weller is chairman of the Committee. She has experience of human resources matters and has the appropriate skills to chair the Committee. She does not chair any other committee of the Board.

There were seven meetings of the Committee held during the year. Sir Tim Lankester and George Fairweather were each unable to attend one meeting, otherwise there was full attendance. Where a Director was unable to attend a meeting, he was nevertheless provided with all the papers and information relating to that meeting and was able to discuss issues arising with the chairman of the Committee. Tim Clarke, the Chief Executive, attended the meetings of the Committee during the year at the invitation of its chairman. No Executive Director attended on matters relating to his own remuneration.

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee. The remuneration of the Non-Executive Directors is decided by the Board as a whole on advice from the Executive Directors.

The Committee received external advice during the year from remuneration consultants Deloitte & Touche LLP ('Deloitte') as well as from Allen & Overy LLP, the Company's general legal advisers. The Committee took advice from Tim Clarke, the Chief Executive, Bronagh Kennedy, Company Secretary and General Counsel, Chris Edger, HR Director and Sheila Mellish, Director of Compensation & Benefits. None of these participated in discussions concerning their own remuneration. Deloitte was independently appointed by the Committee as its adviser from May 2007. Deloitte advises the Company on general tax matters and has previously advised on Non-Executive Directors' fees. It has not provided material remuneration services to the Company since appointment as adviser to the Committee.

The terms of reference of advisers to the Committee are on the Company's website, as are the terms of reference of the Committee itself.

The Committee is responsible for determining policy on remuneration, including pension rights and, should it be necessary, compensation payments, for the Executive Directors, other members of the Executive Committee and certain senior executives and for reviewing the Chairman's fees. The Committee is committed to the principles of accountability and transparency to ensure that remuneration

Remuneration Committee report

The Remuneration Committee is responsible for determining policy on remuneration including annual bonuses and benefits under long-term incentive schemes and other terms of service of senior executives.

It also considers the pension consequences and associated costs to the Company of changes in remuneration and considers organisational issues, management resource and development and education programmes for senior executives.

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arrangements demonstrate a clear link between reward and performance. The Committee monitors the size of potential remuneration awards to Executive Directors and uses its independent advisers to assist with modelling potential outcomes. It determines the actual remuneration of the Executive Directors and reviews proposals in respect of other members of the Executive Committee, taking account of a range of factors, including remuneration policy and percentage increases awarded across the Group as a whole. For the year under review, the total emoluments, including benefits in kind earned by those members of the Executive Committee who were employed in the Group at the year end, and who were not main Board Directors, are shown in the table below:

No. of executives	£000
2	201 – 250
2	251 – 300

The rest of this report deals with the remuneration of the Executive and Non-Executive Directors only.

Remuneration policy for Executive Directors

The following overall policy has applied throughout the year and is intended to continue to apply for FY 2009:

- remuneration packages are designed to attract, retain and motivate Executive Directors of the highest calibre;
- the packages will be competitive within the leisure retailing industry and in those markets from which the organisation recruits;
- in fixing remuneration, note will be taken of reward levels in the wider community and of the remuneration structure throughout the organisation;
- there will be an appropriate balance between fixed and variable risk reward. The latter will be linked to the performance of both the individual and of the Group;
- basic salary will normally be set within a competitive range, broadly at median market level when compared with appropriate comparator companies but, by exception, may extend into the upper quartile to attract new employees and reward key individuals for consistent outstanding performance; and
- to support the Company's commitment to ensure that Directors' interests are aligned to those of shareholders, there is a mandatory shareholding of three times salary for the Chief Executive and twice salary for other Executive Directors. For any future Executive Director appointment, the mandatory shareholding requirement may be reduced to one times salary subject to this continuing to be reflective of market practice at that time. Shares arising from share schemes should not normally be sold until the minimum level of ownership has been satisfied.

It has been decided that Adam Fowle and Jeremy Townsend will be required to attain a shareholding of twice their annual salary within five years of their appointment as an Executive Director.

- Executive Directors are normally provided with rolling 12 month contracts, which provide for 12 months' notice from the Company and six months' notice from the Director. Service contracts provide for summary termination in the event of gross misconduct. In other circumstances, any severance payment would normally be based on a valuation of net pay and benefits for any unexpired notice period in the expectation that the Director has made reasonable attempts to mitigate his loss.

A summary of the Executive Directors' contract start dates, unexpired term and notice period are set out on page 62.

- No payments, including compensation on early termination, should normally be payable on termination, other than the salary and benefits due for the notice period and such entitlements under incentive plans that are consistent with the terms of such plans. Any entitlement under incentive plans will vest or lapse, subject to the discretion of the Committee, in accordance with the terms of such plans.

There are no compensation provisions in relation to a change of control of the Company.

Contracts for new appointees to the Board provide for phased compensation payments on loss of office which are offset against salary where a new role is secured during the normal notice period. This reflects developing best practice and has been applied in respect of the appointment of Adam Fowle and Jeremy Townsend.

- The Company recognises that its Executive Directors may be invited to become non-executive directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one such non-executive appointment with the Company's prior approval and as long as this is not likely to lead to conflicts of interest. Fees received may be retained by the Director.

Tim Clarke is a non-executive director of Associated British Foods plc and received £60,767 (2007 £45,875) during the year for that appointment.

Alignment of remuneration with key performance indicators

Overall reward levels depend on the achievement of challenging corporate and individual performance targets designed to underpin the achievement of the Company's strategic goals, ensuring continued close alignment between executive reward and enhanced shareholder value. To this extent the Committee reviews, on an ongoing basis, the operation of its incentive schemes, including the exercise of discretion, grant levels, performance criteria and vesting schedules, to ensure that they remain appropriate and sufficiently challenging.

The Company measures its performance against its strategy through four key performance indicators ('KPI's), being:

1. Same outlet like-for-like sales growth
2. Adjusted earnings per share ('EPS') growth
3. Cash return on cash capital employed ('CROCCE') in excess of the weighted average cost of capital, post-tax ('WACC')
4. Incremental return on expansionary capital

As outlined in the OFR, total shareholder return ('TSR') is also an important measure of performance and this measure forms one of the performance conditions for the Performance Restricted Share Plan. These KPIs and their alignment to remuneration policy are summarised overleaf and are discussed in more detail in the OFR on page 25.

KPI and incentive scheme alignment

KPI	Incentive scheme	Performance measures	Grant policy
Same outlet like-for-like sales growth Adjusted earnings per share growth	Annual performance bonus	Adjusted earnings per share (75%) and personal and Group business objectives (25%) which include like-for-like sales growth.	55% of salary 'on target' bonus. 100% of base salary maximum bonus. Payable in cash or shares at the discretion of the Committee.
Adjusted earnings per share growth	Short-Term Deferred Incentive Plan ('STDIP')	Growth in adjusted earnings per share in excess of RPI over a three-year performance period.*	Deferred shares matched 1:1 subject to achievement of a performance condition. Dividend Accrued Shares will be awarded on the value of ordinary dividends accruing on vested shares.
CROCCE in excess of WACC TSR	Performance Restricted Share Plan ('PRSP')	Average excess of cash return on cash capital employed over the weighted average cost of capital. Total shareholder return against an industry specific comparator group.	Total PRSP award is up to 177% of base salary of which half relates to the excess of CROCCE over WACC and half relates to TSR. Dividend Accrued Shares will be awarded on the value of ordinary dividends accruing on vested shares.

* As a result of Executive Directors offering to voluntarily freeze final consideration of their annual bonus award in respect of 2007 pending the outcome of the settlement of the then outstanding hedging instruments, the bonus was forfeited and there was no award under the STDIP in FY 2008

Components of remuneration packages
The main components of Executive Directors' remuneration have to date been:

Basic salary
Basic salary will normally be set within a competitive range, broadly at median market level. As previously reported, from 2007 onwards, the Committee decided that, by exception, basic salary may extend into the upper quartile to attract new employees and reward key individuals for consistent outstanding performance. Basic salary is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in comparator companies. Salary levels in the Group and in the wider employment market are also taken into account.

The proportion of the Group's basic salary bill attributable to the Executive Directors and other members of the Executive Committee in 2008 was 0.7% (2007 0.8%).

The average earnings (base salary and annual performance bonus) of the Executive Directors were £422,551 (2007 £419,250) and the average earnings per non-Board employee were £13,810 (2007 £13,686); the ratio is therefore 1:31 (2007 1:31). The Board and the Committee do not have a policy on this ratio, but aim to reward all employees fairly according to the nature of their role, their performance and market forces.

In the year under review, the average base salary increase for members of the Executive Committee, which includes the Executive Directors was 1.9%, whereas the average increase for other employees, including retail staff and management, was 2.2%.

Of the components of the remuneration package, only basic salary is pensionable.

Annual performance bonus and Short-Term Deferred Incentive Plan
The purpose of the annual performance bonus and STDIP is to reward participants for performance over the previous financial year and provide an element of retention and consideration of longer-term strategic objectives through a matching share award going forwards.

Participation is considered each year, at the discretion of the Committee.

Challenging performance goals are set, which must be achieved before a bonus becomes payable. For FY 2008, the maximum bonus opportunity was 100% of salary of which 75% was linked to adjusted earnings per share and 25% to personal and Group business objectives for the year to 27 September 2008. At the discretion of the Committee, the bonus is payable either in cash or may be deferred into Bonus and Matching Shares under the STDIP as set out below.

Under the STDIP, any annual bonus awarded may be converted into an award of Bonus Shares which will be deferred for three years. Provided the Executive Director is in the Company's employment at the end of that period, the Company will provide Matching Shares on a 1:1 basis. If the Executive Director leaves during that three-year period, the Committee has discretion to award Matching Shares, on a pro rata basis and subject to satisfaction of the performance condition, to good leavers, as defined by the STDIP rules.

For awards in respect of FY 2006 and onwards, where an award is made, participants are entitled to receive Dividend Accrued Shares on vesting equal to the value of the gross ordinary dividends that would have been paid or payable on the vested shares by reference to the Record Dates between the award date and the release date.

Vesting of Matching Shares takes place subject to the achievement of a three-year performance condition. There is no retesting of the performance condition over the three-year period.

Where Matching Shares have been awarded, the performance condition has been based on EPS growth.

For the award in respect of FY 2005, the performance condition is based on growth in EPS such that cumulative EPS growth over the three-year performance period, ended 27 September 2008, must increase by at least 27 percentage points over the growth in the Retail Price Index ('RPI') before Matching Shares can vest in full. The vesting of Matching Shares will be on a sliding scale according to the level of EPS growth. No Matching Shares will be released unless EPS growth over the performance period exceeds RPI growth by at least 12 percentage points.

Matching Share award in respect of FY 2005
Summary of performance

	Actual growth in EPS over RPI	Vesting
Cumulative EPS growth in excess of RPI over the three-year performance period	10.9%	Nil

For the award in respect of FY 2006, the performance measure is as described above except that the performance condition is based on average EPS growth in excess of RPI over the performance period.

As no bonus was payable to Executive Directors in respect of FY 2007, there was no award of Matching Shares.

EPS growth has been chosen because it is a measure which reflects movement in shareholder value. The Company's auditors review and certify performance against the target.

Performance Restricted Share Plan
The PRSP grants Executive Directors, at the discretion of the Committee, cash or nominal priced options over shares, subject to the satisfaction of a performance condition set by the Committee which is measured over a three-year period. As approved by shareholders at the 2006 AGM, for awards made under the PRSP by reference to the three-year cycle ended September 2008 onwards, participants are entitled to receive Dividend Accrued Shares on vesting equal to the value of the gross ordinary dividends that would have been paid or are payable on the vested shares by reference to the Record Dates between the award date and the vesting date. Under the PRSP rules options to the value of up to 200% of a Director's basic annual salary may be granted. In practice, the committee has observed a 177% limit in respect of Directors to date.

Currently, three cycles of the scheme are being operated in respect of the periods 2005-08, 2006-09 and 2007-10, each with the same two performance conditions, based on:
- total shareholder return; and
- cash return on cash capital employed exceeding the weighted average cost of capital, post tax.

PRSP performance cycles to September 2009 and 2010
Summary of performance conditions

	Minimum vesting	Maximum vesting
TSR (50%)	Equal to 5th place 20% vesting	Equal to 1st place 100% vesting
Average CROCCE vs WACC (50%)	Excess of 4.0% 20% vesting	Excess of 5.5% 100% vesting

TSR was chosen as a measure because it aligns the interest of management with that of shareholders. The CROCCE versus WACC measure was chosen to focus the Executive Directors on increasing the cash returns generated by the business and reducing the overall cost of funding to the Company, thereby maximising the spread between the two and increasing shareholder value. Performance measurement under the PRSP is reviewed and certified by the Company's auditors.

TSR measure
For each cycle, 50% of the award is measured by reference to TSR performance against a comparator group of other companies which, at the date of award, consisted of:

Company	Cycle to Sep 2008	Cycle to Sep 2009	Cycle to Sep 2010
Enterprise Inns	•	•	•
Fuller, Smith & Turner	•	•	•
Greene King	•	•	•
JD Wetherspoon	•	•	•
Luminar	•	•	•
Punch Taverns	•	•	•
Regent Inns	•	•	•
The Restaurant Group	•	•	•
Whitbread	•	•	•
Marstons*	•	•	•
Gondola Holdings**	•	•	

* Formerly known as Wolverhampton & Dudley
** Gondola Holdings was added to the comparator group for the cycles to September 2008 and September 2009 following its listing in 2005 and removed following its delisting at the end of 2006

PRSP performance cycle to September 2008
Summary of performance

	Outcome	Vesting
TSR (50%)	7th in comparator group	Nil
Average CROCCE vs WACC (50%)	Average excess of 4.57 percentage points	77.1%

For the three-year cycle ending September 2008, the Company had to finish in first to fifth position for an award to vest, graded on a straight line basis between 100% of the TSR element of the award for first position to 20% for fifth position. Below fifth position the award relating to TSR lapses.

The Committee is satisfied that the recorded TSR is a genuine reflection of the Company's underlying performance.

For the three-year cycle ended September 2008, if the amount by which the CROCCE exceeds the WACC over the performance period is at least 5.0 percentage points, 100% of the CROCCE element of the award will vest. If the excess is 3.5 percentage points, 20% of the award will vest. In between 3.5 percentage points and 5.0 percentage points the award will be graded on a straight line basis. Below 3.5 percentage points, there will be no award in respect of this element.

As set out above it is intended that a grant of an option over Dividend Accrued Shares will be made in respect of shares which have vested at the end of the performance period under the three-year cycle ended September 2008. Such option will be exercisable immediately on the payment of £1; the value of the award will, at the date of grant, be as close as possible to and no more than the value of dividends paid over the qualifying period as set out above (31.05p per vested share).

Executive Share Option Plan ('EXSOP')
No grant of EXSOP options has been made since June 2005 and no further grant is intended to be made under this plan. Grants were made at the discretion of the Committee according to seniority, the maximum value in any one year being two times salary.

The latest lapse date under this plan for options previously granted is in June 2015.

Rolled-over legacy options
On demerger from Six Continents, the Group's executives, including the Executive Directors, with outstanding options under the Six Continents Executive Share Option Schemes were permitted to roll over those options into options of equivalent value over the Company's shares. The performance conditions ceased to apply to those options on demerger. The latest lapse date for these legacy options is in October 2012.

Other share plans
Executive Directors may participate in the all-employee share plans; the Sharesave Plan and the Share Incentive Plan. Performance targets do not apply to such plans.

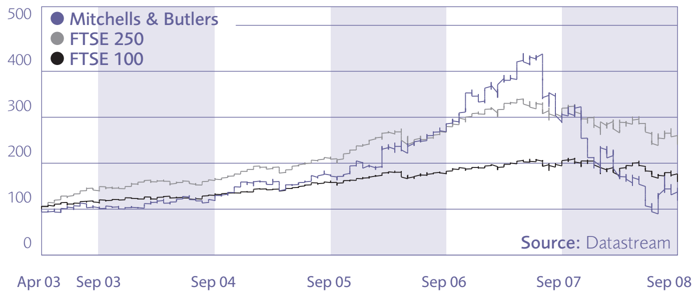
Companies used for comparison in respect of overall pay and benefits
In assessing overall levels of pay and benefits, the Committee takes into account the packages offered by comparator companies. To ensure that the methodology remains relevant and properly reflects the markets from which the organisation recruits, the overall levels of pay and benefits are assessed by reference to market practice in the FTSE All-Share index, as well as relevant sector specific comparators.

The methodology and the comparator companies are chosen by the Committee following advice from its independent advisers having regard to:
- industry sector to include direct competitors and the wider retail sector;
- size – financial size and the number of people employed; and
- the structure and complexity of the business.

The selection of a tailored and consistent comparator group enables the Committee to take account of executive remuneration across a broad cross section of FTSE companies as well as identify any industry-specific trends.

FTSE 100 and FTSE 250 comparators
As required by Schedule 7A of the Companies Act 1985 the Company's TSR performance is shown below against a recognised share index. From its listing on 15 April 2003 until 21 December 2003, the Company was a constituent of the FTSE 100 index. From 22 December 2003 until 20 April 2007, the Company was included in the FTSE 250 index. From 21 April 2007 to 24 December 2007 the Company was again a constituent of the FTSE 100 index and thereafter was included in the FTSE 250 index. The graph below therefore measures the Company's TSR performance, assuming dividends are reinvested, against both the FTSE 100 and 250 indices.

Total shareholder return since demerger to end FY 2008 (rebased to 100)



Pension arrangements
UK-based Executive Directors are eligible for membership of the Mitchells & Butlers Executive Pension Plan (the 'Plan') and, if appropriate, the Mitchells & Butlers Executive Top-Up Scheme ('MABETUS').

The Plan comprises defined benefit and defined contribution sections. The Plan has 'registered' status with HM Revenue & Customs and therefore is subject to preferential tax treatment compared to unregistered schemes such as MABETUS.

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Defined benefit section
The main features of the defined benefit section of the Plan as it applies to Executive Directors are:
- a normal pension age of 60;
- pension accrual of up to 1/30th of final pensionable salary for each year of pensionable service;
- life assurance cover of four times pensionable salary;
- pensions payable in the event of ill health; and
- on death, pensions based on one-third full pension entitlement for a spouse and one-sixth for each of a maximum of two eligible children.

Early retirement
Any member of the defined benefit section of the Plan who decides to leave the service of the Company currently has the right to draw the accrued pension at any time from age 50, subject to a discount for early payment. At the discretion of the Company, any active member of the defined benefit section of the Plan may be permitted to draw his accrued pension without reduction on early retirement from age 55.

Pension increases
All pensions in payment in excess of Guaranteed Minimum Pensions are subject to non-discretionary annual increases in line with the annual rise in the RPI, subject to a maximum of 5% per annum. In addition, it is the Company's present aim to pay additional increases based on two-thirds of any rise in the RPI above 5% per annum.

Other discretionary benefits
Other than the discretionary pension increases mentioned above, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

Defined contribution section
Members elect to pay 3%, 4% or 5% of their base salary which, for Executive Directors, is matched on a four times basis up to a maximum of 20% by the Plan. The main features of the defined contribution section of the Plan as it applies to Executive Directors are:
- a normal pension age of 60;
- life assurance cover of four times base salary; and
- full and partial incapacity benefit provision.

MABETUS
MABETUS is an unfunded, unregistered arrangement. Appropriate security is provided through a charge on property assets. MABETUS is used to provide benefits for members of the defined benefit section of the Plan who were above the earnings cap on 5 April 2006 and for members whose pension benefit is above the Lifetime Allowance, which limits the amount of benefits that receive preferential tax treatment under a pension arrangement which has registered status with HMRC. MABETUS provides benefits for Tim Clarke above the earnings cap. Mike Bramley has entitlement to benefits in excess of his Lifetime Allowance which are provided by MABETUS. Adam Fowle and Jeremy Townsend have no entitlement to benefits under MABETUS.

Non-Executive Directors
Non-Executive Directors are paid a basic fee with additional fees for membership of the Remuneration and Audit Committees and for chairing those committees. No additional fee is paid for membership of the Nomination Committee or for the Property Committee. The fees are approved by the Board on the recommendation of the Executive Directors, based on a review of the fees paid in other companies of a similar size. Fees are normally reviewed every three years. A review of these fees was last carried out in April 2006. Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension arrangements. The fee structure applicable throughout the financial year is set out below:

Basic fee	Committee chairman fee*	Committee member fee*
£35,500	£7,500	£6,000

* Applicable to Remuneration and Audit Committees only

Non-Executive Directors do not have service contracts, but operate under a letter of appointment which provides for their tenure of office to be reviewed when they are about to stand for re-election, which is every three years. There is no notice period and no provision for termination payments.

The dates of appointment of the Non-Executive Directors are set out on page 47.

The tables and related disclosures on the STDIP, PRSP, share options, Share Incentive Plan and pension benefits have been audited by Ernst & Young LLP.

Weighted average information setting out the fair value calculation applicable to each option grant, on a Company-wide basis, is set out in the notes to the financial statements on pages 76 and 77.

Supplementary information on Directors' remuneration

Directors' emoluments

	Basic salaries and fees £000	Annual performance bonus £000	Benefits £000	Payments paid in connection with the termination of employment £000	Total emoluments (excluding pensions) 2008 52 weeks £000	Total emoluments (excluding pensions) 2007 52 weeks £000
Executive Directors						
Tim Clarke	550	28	33	–	611	560
Jeremy Townsend[a]	197	10	12	–	219	–
Mike Bramley	386	20	25	–	431	395
Adam Fowle	349	61	25	–	435	–
Tony Hughes[b]	96	17	10	–	123	399
Karim Naffah[c]	131	–	6	281	418	399
Non-Executive Directors						
Drummond Hall[d]	91	–	–	–	91	47
Aaron Browne[e]	8	–	–	–	8	–
Roger Carr[f]	164	–	–	17	181	224
George Fairweather	55	–	–	–	55	55
Sir Tim Lankester	47	–	–	–	47	47
Tim Smalley[e]	8	–	–	–	8	–
Sara Weller	55	–	–	–	55	55
Total 2008	2,137	136	111	298	2,682	–
Total 2007	2,100	–	81	–	–	2,181

a Jeremy Townsend was appointed as an Executive Director with effect from 31 January 2008
b Tony Hughes left the Mitchells & Butlers Group by reason of early retirement (aged 59) on 31 December 2007. In accordance with the terms of the healthcare plan, as applicable to all retiring members, Tony retained entitlement to private medical cover, on the same basis as applied at his date of retirement, until the end of the plan year (30 September 2008) following his retirement. The value of this benefit, being £854, is included in the benefit value set out above.
c Karim Naffah left the Mitchells & Butlers Group on 29 January 2008. The termination payment includes an amount in respect of unused holiday entitlement to the date of termination. Under the terms of his contract, Karim is entitled to and has continued to receive base pay and benefits (but not bonus) for the duration of the 12 month notice period which had been due to him under his contract. Notwithstanding his contractual entitlement, payments will cease or reduce on the earlier of the expiry of the notice period (28 January 2009) or on commencement of an alternative role. Karim's healthcare benefit, being £951, for the period from 29 January 2008 is included in the benefit value in the table above.
d Drummond Hall was appointed as Deputy Chairman with effect from 26 February 2008 and Chairman with effect from 20 June 2008
e Aaron Brown and Tim Smalley were appointed as non-independent Non-Executive Directors with effect from 20 June 2008. Following the year end, on 8 October 2008, Aaron and Tim resigned from the Company.
f Roger Carr stood down as Chairman of the Company with effect from 20 June 2008. An ex gratia payment towards a leaving gift was made to Roger subsequent to his stepping down as Chairman.

The figures above represent emoluments paid during the periods shown. There were no payments for loss of office.

'Benefits' incorporate the value of all tax assessable benefits arising from employment with the Company, which primarily relate to the provision of a company car and healthcare cover.

Annual performance bonus

The bonus for each Executive Director for FY 2008 was as follows:

Director	Maximum bonus achievable £000	Bonus earned £000	EPS target achieved £000	Group and personal objectives £000
Tim Clarke	554	28	–	28
Jeremy Townsend	206	10	–	10
Mike Bramley	390	20	–	20
Adam Fowle	350	61	–	61
Tony Hughes	96	17	–	17
Karim Naffah	131	–	–	–

To achieve maximum bonus, Directors had to meet targets related to:

- the Company's earnings per share performance; and
- Group and personal business objectives.

Group business objectives related to:
- improvement in like-for-like sales;
- staff productivity;
- guest satisfaction;
- effective purchasing;
- return on investment;
- asset management; and
- return on the Original Acquired Sites.

Personal business objectives related to the financial performance of the business area for which the Director was directly responsible.

Salary

The normal salary review date is 1 January. As at 27 September 2008 and 25 November 2008, the basic annual salaries of Executive Directors were as shown below:

Director	27/09/08 and 25/11/08 £000
Tim Clarke	554
Jeremy Townsend	310
Mike Bramley	390
Adam Fowle	350

Short-Term Deferred Incentive Plan

The table below shows the maximum Matching Shares received or receivable based on some or all, as determined by the Committee, of the Directors' annual performance bonuses from 2003 onwards being deferred into share awards.

	Carried forward as at 30/09/07				FY 2008					
Director	Number of Matching Shares	Share price at year end	Value of Matching Shares £000	Earliest vesting date	Number of Matching Shares awarded	Matching Shares vested in year	Matching Shares lapsed in year	Matching Shares yet to vest at 27/09/08	Share price at 27/09/08	Total value at 27/09/08 £000
Tim Clarke	102,093	611.00p	624	27/11/08	–	19,958	–	82,135	232.25p	191
Jeremy Townsend	–	–	–	–	–	–	–	–	–	–
Mike Bramley	76,608	611.00p	468	27/11/08	–	10,487	–	66,121	232.25p	154
Adam Fowle	–	–	–	–	–	–	–	–	–	–
Tony Hughes[a]	103,103	611.00p	630	27/11/08	–	13,109	–	89,994	232.25p	209
Karim Naffah[b]	62,211	611.00p	380	27/11/08	–	14,088	21,121	27,002	232.25p	63

[a] Tony Hughes had an interest in 89,994 shares under this plan on cessation of his employment on 31 December 2007
[b] Karim Naffah had an interest in 48,123 shares under this plan on cessation of his employment on 29 January 2008. 21,121 shares lapsed immediately following termination.

All unvested awards of Matching Shares have a performance condition. These are described on page 55. The earliest vesting date for the awards made in FY 2006 (i.e. in December 2005) is November 2008 and the earliest vesting date for the awards made in FY 2007 (i.e. in December 2006) is November 2009. The table below shows details of the Matching Shares that vested during the year. The number of shares vested was released subject to tax and NI.

The Committee exercised discretion to permit Karim Naffah to retain entitlement, subject to achievement of the performance condition and pro rata to time served, to those Matching Shares which were due to vest during the period of his unworked notice (i.e. those due to vest in November 2008) and subject to his not commencing alternative employment prior to the vesting date.

Director	Number of Matching Shares	Award date	Share price on award date	Vesting date	Share price on vesting date	Market value on vesting date £000	Net shares received after tax and NI
Tim Clarke	19,958	07/12/04	322.25p	07/12/07	507.25p	101	11,758
Mike Bramley	10,487	07/12/04	322.25p	07/12/07	507.25p	53	6,179
Tony Hughes	13,109	07/12/04	322.25p	07/12/07	507.25p	66	7,723
Karim Naffah	14,088	07/12/04	322.25p	07/12/07	507.25p	71	8,300

The potential total gross gain made in the year by all Directors had they sold all their Matching Shares when they vested was £292,389 (2007 £606,947).

Performance Restricted Share Plan

Participation in the PRSP is by means of an option which is exercisable for nominal consideration, once the performance condition has been satisfied.

In 2008, there were three cycles of the plan in operation, each with a three-year performance period, as outlined below:

- October 2005 to September 2008
  the combined maximum award, as approved by shareholders at the 2006 AGM, is equivalent to 177% of basic salary at the date of the award. This change was applied in conjunction with the discontinuance of the EXSOP;
- October 2006 to September 2009
  the combined maximum award is also equivalent to 177% of basic salary at the date of the award; and
- October 2007 to September 2010
  the combined maximum award is also equivalent to 177% of basic salary at the date of the award.

Details of the two performance measures are set out on page 55.

The maximum number of shares available, subject to shares being sold to meet the income tax and national insurance contributions due, if all performance targets are achieved is:

Director	Maximum potential shares as at 29/09/07	Lapsed in year	Vested in year	Exercised in year	Share price on date of exercise (p)	Granted in year[a]	Maximum potential shares as at 27/09/08	Maximum potential award as at 27/09/08 £000[b]	Earliest vesting date	Latest lapse date
Tim Clarke	522,538	35,459	111,363	111,363	323.42	460,366	836,082	1,942	27/11/08	30/11/12
Jeremy Townsend	161,772	10,052	31,568	31,568	323.42	245,322	365,474	849	27/11/08	30/11/12
Mike Bramley	354,026	23,867	74,955	74,955	323.42	324,084	579,288	1,345	27/11/08	30/11/12
Adam Fowle	242,372	16,082	50,508	50,508	323.42	290,844	466,626	1,084	27/11/08	30/11/12
Tony Hughes	354,026	23,867	74,955	74,955	394.00	–	255,204	593	27/11/08	28/05/10
Karim Naffah	373,852	125,618	79,240	79,240	456.04	–	168,994	392	27/11/08	28/05/09

[a] Granted on 23 June 2008; share price at date of grant was 213p
[b] Based on the share price on 26 September 2008 of 232.25p

The potential total gross gain made in the year by all Directors had they sold all their shares when they exercised them was £1,524,723 (2007 £2,958,586).

Directors' share options

Director	Ordinary shares under option: 29/09/07	Granted	Vested	Exercised	Lapsed	27/09/08	Weighted average option price (p)	Earliest exercise date	Last expiry date
Tim Clarke									
A	896,377	–	–	–	(50,383)	–	–	–	–
B	328,343	–	(318,920)	–	–	9,423	169.00	01/10/08	31/03/09
C	–	–	318,920	–	–	1,164,914	276.89	–	24/05/15
D	–	1,451	–	–	–	1,451	259.00	01/10/11	31/03/12
Total	1,224,720	1,451	318,920	–	(50,383)	1,175,788			
Jeremy Townsend									
A	–	–	–	–	–	–	–	–	–
B	83,207	–	(83,207)	–	–	–	–	–	–
C	–	–	83,207	–	–	83,207	330.50	–	23/06/15
D	–	3,629	–	–	–	3,629	259.00	01/10/11	31/03/12
Total	83,207	3,629	83,207	–	–	86,836			
Mike Bramley									
A	265,346	–	–	–	–	–	–	–	–
B	214,658	–	(214,658)	–	–	–	–	–	–
C	–	–	214,658	–	–	480,004	285.41	–	24/05/15
Total	480,004	–	214,658	–	–	480,004			
Adam Fowle									
A	–	–	–	–	–	–	–	–	–
B	120,170	–	(120,170)	–	–	–	–	–	–
C	–	–	120,170	–	–	120,170	326.10	–	24/05/15
D	–	6,283	–	–	–	6,283	259.00	01/10/13	31/03/14
Total	120,170	6,283	120,170	–	–	126,453			

Directors' share options continued

Director	Ordinary shares under option 29/09/07	Granted	Vested	Exercised	Lapsed	31/12/07	Weighted average option price (p)	Earliest exercise date	Last expiry date
Tony Hughes									
A	265,346	–	–	–	–	265,346	252.50	–	24/05/09
B	214,658	–	–	–	–	214,658	326.10	–	24/05/10
Total	480,004	–	–	–	–	480,004			

	29/09/07	Granted	Vested	Exercised	Lapsed	29/01/08	Weighted average option price (p)	Earliest exercise date	Last expiry date
Karim Naffah									
A	763,443	–	4,509	–	–	767,952	239.80	–	28/01/09
B	231,433	–	(4.509)	–	–	226,924	326.10	–	28/01/09
Total	994,876	–	4,509	–	–	994,876			

Shares under option at 27 September 2008 are designated as:

A Where the options are exercisable and the market price per share was above the option price at 27 September 2008 or for Directors who left during the year as at their leaving date;

B Where the options are not yet exercisable and the market price per share was above the option price on 27 September 2008 or for Directors who left during the year as at their leaving date;

C Where the options are exercisable and the market price per share was below the option price; and

D Where the options are not yet exercisable and the market price per share was below the option price at 27 September 2008.

During the year ended 27 September 2008 options granted in May 2005 under the EXSOP vested for each of the Executive Directors. The number of shares under option that vested during the year have moved from row B to row C.

The above table excludes potential awards under the PRSP.

Executive share options

Options granted under the EXSOP are exercisable between 27 May 2006 and 23 June 2015.
No Directors' options over Mitchells & Butlers plc shares under the EXSOP lapsed during the year.

Rolled-over legacy options

Rolled-over legacy options became exercisable on demerger from Six Continents in April 2003 and, if not exercised, will lapse on various dates up to 2012. Rolled-over legacy options ceased to be subject to performance conditions on demerger. 50,383 rolled-over legacy options which were exercisable by Tim Clarke at an option price of 364.46p lapsed on 2 March 2008.

Sharesave options

Sharesave options are exercisable between 1 October 2011 and 31 March 2014.

No Directors' options over Mitchells & Butlers plc shares under the Sharesave Plan lapsed during the year. Tim Clarke exercised a Sharesave option over 9,423 shares at 169p each on 1 October 2008 and retained the resulting shares.

Share Incentive Plan

As at 27 September 2008, the Executive Directors had the following entitlements subject to the rules of the all-employee Share Incentive Plan. Awards made before the share consolidation on 18 October 2006 have been adjusted to reflect that consolidation.

Director	Awarded 27/06/03 @238.50p	Normal vesting date[a]	Awarded 28/06/04 @271.75p	Normal vesting date[b]	Awarded 30/06/05 @330.00p	Normal vesting date[c]	Awarded 05/07/06 @519.75p	Normal vesting date	Awarded 29/06/07 @876.00p	Normal vesting date	Awarded 30/06/08 @209.00p[d]	Normal vesting date
Tim Clarke	754	27/06/06	915	28/06/07	754	30/06/08	478	05/07/09	342	29/06/10	1,435	30/06/11
Jeremy Townsend	–	–	–	–	–	–	–	–	150	29/06/10	749	30/06/11
Mike Bramley	574	27/06/06	866	28/06/07	723	30/06/08	462	05/07/09	278	29/06/10	1,244	30/06/11
Adam Fowle	–	–	–	–	–	–	–	–	224	29/06/10	1,060	30/06/11

[a] The share price on 27 June 2006, the date of vesting, was 505.00p
[b] The share price on 28 June 2007, the date of vesting, was 876.00p
[c] The share price on 30 June 2008, the date of vesting, was 205.00p
[d] The share price on 30 June 2008, the date of award, was 205.00p

Following Tony Hughes's retirement from the Group on 31 December 2007, and in accordance with the rules of the Plan, 2,956 shares awarded between 27 June 2003 and 29 June 2007, were released to him on 7 March 2008. The market value on the date of release was £12,511.27.

Following the termination of Karim Naffah's employment with the Group on 29 January 2008, and in accordance with the rules of the Plan, 2,360 shares awarded between 27 June 2003 and 30 June 2005 were released to him on 10 March 2008. The market value on the date of release was £9,558. The balance of 770 shares lapsed on the termination of Karim's employment.

Directors' shareholdings

	Ordinary shares of 8 13/24p	
	27/09/08	29/09/07
Executive Directors		
Tim Clarke	908,708	806,409
Jeremy Townsend	24,491	150[a]
Mike Bramley	486,592	422,666
Adam Fowle	36,157	5,304[a]
Non-Executive Directors		
Drummond Hall	54,387	7,974
Aaron Brown	50,000	–
George Fairweather	1,658	1,658
Sir Tim Lankester	5,271	1,017
Tim Smalley	–	–
Sara Weller	9,211	4,383

[a] Interests at date of appointment were unchanged from those applicable at 29 September 2007

The above shareholdings, including the shares held on behalf of the Executive Directors by the trustee of the Company's Share Incentive Plan, are all beneficial interests.

In the period from 27 September 2008 to 25 November 2008, Tim Clarke acquired a further 9,423 shares as a result of the exercise of a Sharesave option at 169p per share.

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

The market price per share on 26 September 2008 was 232.25p and the range during the year to 26 September 2008 was 175.50p to 665.50p per share.

The shareholding as a multiple of salary of each of the Executive Directors at 27 September 2008 is as set out below.

Director	Shareholding as a multiple of salary[a]
Tim Clarke	3.8
Jeremy Townsend	0.2
Mike Bramley	2.9
Adam Fowle	0.2

[a] Based on the share price on 26 September 2008 of 232.25p

Directors' contracts

The service contract details attaching to each of the Executive Directors at 27 September 2008 is as set out below.

Director	Contract start date	Unexpired term[a]	Notice period
Tim Clarke	15/04/03	Indefinite	12 months
Jeremy Townsend	31/01/08	Indefinite	12 months
Mike Bramley	15/04/03	Indefinite	12 months
Adam Fowle	01/10/07	Indefinite	12 months
Tony Hughes[b]	15/04/03	Nil	12 months
Karim Naffah[c]	15/04/03	To end of unexpired notice period, being 28/01/09	12 months

[a] To retirement from age 60 to not later than age 65
[b] Tony Hughes retired from employment with the Group on 31 December 2007
[c] Karim Naffah's employment with the Group terminated on 29 January 2008

Directors' pension benefits
Defined contribution section
Adam Fowle and Jeremy Townsend are entitled to receive a Company contribution into the defined contribution section of the Plan. This contribution is at a rate of four times their personal contribution up to a maximum of 20% of base salary. In the year ended 27 September 2008 the Company contribution was £69,808 in respect of Adam Fowle and £40,767 in respect of Jeremy Townsend from 31 January 2008, the date of his appointment as an Executive Director.

Defined benefit section

Director	Years of pensionable service	Age at 27/09/08	Director's contribution £[a]	Transfer value of accrued pension 29/09/07 £	Transfer value of accrued pension 27/09/08 £	Increase in transfer value over year less Director's contributions £	Increase in accrued pension[b] £ p.a.	Increase in accrued pension[c] £ p.a.	Accrued pension at 27/09/08[d] £ p.a.
Tim Clarke	18	51	32,900	3,689,000	6,559,800	2,837,900	43,700	31,100	339,500
Mike Bramley	28	57	–	4,220,000	6,519,400	2,299,400	21,300	10,300	277,600
Tony Hughes[e]	13	60	–	2,861,200	2,857,900	(3,300)	(35,500)	(41,600)	105,300
Karim Naffah[f]	17	45	7,800	1,663,400	3,046,800	1,375,600	14,900	7,500	188,600

a Contributions paid in the year by the Directors under the terms of the plans
b The absolute increase in accrued pension during the year
c The increase in accrued pension during the year, excluding any increase for inflation
d Accrued pension is that which would be paid annually on retirement at 60, based on service to 27 September 2008
e Tony Hughes retired under the terms of the Company's discretionary Early Retirement Facility on 31 December 2007; as such he ceased to accrue pension benefits. At that time his pension was £147,638 per year before commutation. Tony elected to take a cash lump sum of £695,263 (£488,420 after tax). £6,566 was also paid in tax in respect of benefits over the Lifetime Allowance. The residual pension payable as at 31 December 2007 was £105,217 per year. No specific additional contribution is or has been made by the Company in respect of this early retirement.
f In accordance with the termination agreement, Karim Naffah's transfer value includes an amount for service between his termination date and 27 September 2008

Mike Bramley opted out of the Plan for future accrual with effect from 5 April 2006. Death benefits up to the Lifetime Allowance will be provided by the Plan. All other future benefits will be provided by MABETUS. Tim Clarke continues to be a member of the final salary section of the Plan.

Members of the Plan have the option to pay Additional Voluntary Contributions; neither any such contributions, nor the resulting benefits, are included in the above table.

Transfer values have been calculated in a manner consistent with the Retirement Benefits Schemes–Transfer Values (GN11) published by the Institute of Actuaries and the Faculty of Actuaries. In addition to the change in transfer values which has arisen as a result of prevailing financial conditions, the values also reflect a revision, effective from 1 April 2008, in the transfer value basis as determined by the Plan Trustee.

Approved by the Board
Sara Weller
Chairman of the Remuneration Committee
25 November 2008

Independent auditors' report to the members of Mitchells & Butlers plc

We have audited the Group financial statements of Mitchells & Butlers plc for the year ended 27 September 2008 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the year ended 27 September 2008 and on the information in the Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union are set out in the Directors' responsibility statement.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Operating and financial review that is cross referred from the business review section of the Directors' report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Director's remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Directors' report, the Chairman's statement, the Operating and financial review and the Corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 27 September 2008 and of its loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

Ernst & Young LLP
Registered auditor
London
25 November 2008

Note: The maintenance and integrity of the Mitchells & Butlers plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Group income statement
For the 52 weeks ended 27 September 2008

	Notes	2008 52 weeks Before exceptional items and IAS 39 movements £m	2008 52 weeks Exceptional items and IAS 39 movements[a] £m	2008 52 weeks Total £m	2007 52 weeks Before exceptional items and IAS 39 movements £m	2007 52 weeks Exceptional items and IAS 39 movements[a] £m	2007 52 weeks Total £m
Revenue	1, 3	1,908	–	1,908	1,894	–	1,894
Operating costs before depreciation and amortisation	4, 9	(1,431)	(12)	(1,443)	(1,422)	(11)	(1,433)
Net profit arising on property disposals	9	–	6	6	–	27	27
EBITDA[b]		477	(6)	471	472	16	488
Depreciation, amortisation and impairment	4, 14, 15	(134)	(206)	(340)	(129)	(50)	(179)
Operating profit	3	343	(212)	131	343	(34)	309
Finance costs	9, 10	(174)	(205)	(379)	(153)	(221)	(374)
Finance revenue	10	7	–	7	6	–	6
Net finance income from pensions	10	3	–	3	11	–	11
Profit/(loss) before tax		179	(417)	(238)	207	(255)	(48)
Tax (expense)/credit	9, 11	(52)	114	62	(62)	100	38
Profit/(loss) for the financial period attributable to equity holders of the parent		127	(303)	(176)	145	(155)	(10)
Earnings/(loss) per ordinary share							
Basic	13	31.5p		(43.7)p	35.5p		(2.5)p
Diluted	13	31.1p		(43.7)p	34.4p		(2.5)p
Dividends							
Ordinary dividends							
Proposed or paid (pence)	12			4.55			14.25
Proposed or paid (£m)	12			18			57
Special dividends							
Paid (pence)	12			–			100.00
Paid (£m)	12			–			486

[a] Exceptional items and IAS 39 movements are explained in note 1 and analysed in notes 9 and 10
[b] Earnings before interest, tax, depreciation, amortisation and impairment

All activities relate to continuing operations.

The notes on pages 69 to 98 form an integral part of these financial statements.

Group statement of recognised income and expense
For the 52 weeks ended 27 September 2008

	Notes	2008 52 weeks £m	2007 52 weeks £m
Unrealised (loss)/gain on revaluation of the property portfolio	15	(166)	1,124
Tax credit/(charge) relating to movements in respect of revaluations	11	64	(292)
(Losses)/gains on cash flow hedges taken to equity	21	(20)	55
Actuarial (losses)/gains on defined benefit pension schemes	8	(35)	33
Tax on items recognised directly in equity	11	5	(23)
Tax credit in respect of change in tax rate	11	–	30
Income recognised directly in equity		(152)	927
Transfers to the income statement:			
On cash flow hedges	21	(30)	15
Tax on items transferred from equity	11	8	(5)
Net income recognised directly in equity		(174)	937
Loss for the financial period		(176)	(10)
Total recognised income and expense for the financial period attributable to equity holders of the parent		(350)	927

The notes on pages 69 to 98 form an integral part of these financial statements.

Group balance sheet
27 September 2008

	Notes	2008 £m	2007 £m
ASSETS			
Goodwill and other intangible assets	14	3	17
Property, plant and equipment	15	4,545	5,030
Lease premiums		10	11
Deferred tax asset	22	58	75
Derivative financial instruments	21	1	30
Total non-current assets		4,617	5,163
Inventories	16	39	38
Trade and other receivables	17	80	69
Current tax asset		3	–
Derivative financial instruments	21	–	79
Other cash deposits	28	2	–
Cash and cash equivalents	28	129	117
Total current assets		253	303
Non-current assets held for sale	18	114	6
Total assets		4,984	5,472
LIABILITIES			
Borrowings	20	(89)	(234)
Derivative financial instruments	21	(48)	(295)
Trade and other payables	19	(276)	(243)
Current tax liabilities		–	(18)
Total current liabilities		(413)	(790)
Borrowings	20	(2,755)	(2,317)
Derivative financial instruments	21	(33)	(47)
Pension liabilities	8	(23)	(18)
Deferred tax liabilities	22	(584)	(723)
Provisions	23	(1)	(1)
Total non-current liabilities		(3,396)	(3,106)
Total liabilities		(3,809)	(3,896)
Net assets attributable to equity holders of the parent		1,175	1,576
EQUITY			
Called up share capital	24,26	34	34
Share premium account	26	14	14
Capital redemption reserve	26	3	3
Revaluation reserve	26	697	828
Own shares held	26	(3)	(13)
Hedging reserve	26	(16)	20
Translation reserve	26	12	7
Retained earnings	26	434	683
Total equity		1,175	1,576

The notes on pages 69 to 98 form an integral part of these financial statements.

Signed on behalf of the Board

Tim Clarke
Jeremy Townsend
25 November 2008

Group cash flow statement
For the 52 weeks ended 27 September 2008

	Notes	2008 52 weeks £m	2007 52 weeks £m
Cash flow from operations	27	474	447
Interest paid		(171)	(151)
Interest received		7	6
Tax paid		(4)	(33)
Net cash from operating activities		306	269
Investing activities			
Purchases of property, plant and equipment		(192)	(252)
Acquisition of Whitbread pub restaurant sites		–	(8)
Purchases of intangibles (computer software)		(1)	(1)
Proceeds from sale of property, plant and equipment		82	162
Transfers to cash deposits with a maturity of greater than three months		(2)	–
Corporate restructuring costs		(3)	(4)
Net cash used in investing activities		(116)	(103)
Financing activities			
Purchase of own shares		(5)	(46)
Proceeds on release of own shares held		3	11
Repayment of principal in respect of securitised debt	20	(41)	(39)
Proceeds from other debt		320	192
Expenditure associated with refinancing		(11)	(4)
Derivative financial instruments closure costs	9	(386)	–
Dividends paid	12	(58)	(538)
Net cash used in financing activities		(178)	(424)
Net increase/(decrease) in cash and cash equivalents	29	12	(258)
Cash and cash equivalents at the beginning of the financial period		117	375
Cash and cash equivalents at the end of the financial period		129	117

Cash and cash equivalents are defined in note 1.

The notes on pages 69 to 98 form an integral part of these financial statements.

Notes to the financial statements
For the 52 weeks ended 27 September 2008

1. General information
Mitchells & Butlers plc (the 'Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and in accordance with the Companies Act 1985.

The Group revalues its freehold and long leasehold land and buildings to fair value, which it reviews at least annually. Short leasehold properties, fixtures and fittings are held at deemed cost on transition to IFRS less depreciation and impairment provisions, which is also considered by the Group to be a reasonable approximation to their fair value. Non-current assets held for sale as at 27 September 2008 are held at their carrying value in accordance with the Group's policy or their net realisable value where this is lower. The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

With the exception of the above policy which was adopted in 2007 the Group's accounting policies have been applied consistently, although certain exemptions to the retrospective application of IFRS have been made by the Group in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

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.

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 223 (3) of the Companies Act 1985.

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include property valuations, depreciation, amortisation, asset impairments and pensions. See 'Property, plant and equipment', 'Goodwill' and 'Employee benefits' below for further information regarding these areas. Actual results may differ from estimates.

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. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Intangible assets
i 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 or the value in use, in order to reach a conclusion as to whether it deems the goodwill to be recoverable. Value in use estimates are based on management's projection of the cash flows that the business will generate, after applying a suitable discount rate (see note 14 'Goodwill and other intangible assets' for further information). Fair value is based on management's assessment of the net proceeds which could be generated through disposing of the business to which the goodwill relates. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. In accordance with IFRS 3 'Business Combinations', such goodwill remains eliminated against reserves and is not included in determining any subsequent profit or loss on disposal.

Goodwill denominated in foreign currencies is translated into sterling at each balance sheet date and any movements are accounted for as set out under 'Foreign currencies'.

ii 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 10 years with the majority being five years.

Property, plant and equipment
Within property plant and equipment, freehold and long leasehold land and buildings have been revalued as at 27 September 2008 to fair value. Short leasehold properties, fixtures and fittings are held at deemed cost on transition to IFRS less depreciation and impairment provisions and non-current assets held for sale as at 27 September 2008 are held at their carrying value in accordance with the Group's policy or their net realisable value where this is lower. Surpluses which arise from the revaluation exercise are recorded directly within the revaluation reserve unless they are reversing a revaluation decrease 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 in the revaluation reserve to the extent that a surplus exists against the same asset. Any residual amount is then recognised against income.

Notes to the financial statements
For the 52 weeks ended 27 September 2008
continued

1. General information continued

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 and no depreciation is charged where the residual value is estimated to be equal to or exceed the carrying value, so that the depreciation charge would be immaterial. Leasehold properties are depreciated over the unexpired term of the lease where this is less than 50 years. The cost less residual value based on prices prevailing at the balance sheet date of plant, machinery, fixtures and fittings and equipment is spread by equal instalments over the estimated life of the relevant assets, namely:

Equipment in retail outlets	3-20 years
Information technology equipment	3-7 years
Vehicles	4-5 years
Plant and machinery	4-20 years

Assets held under finance leases are depreciated over their expected lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. 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.

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 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Non-current assets held for sale and disposal groups

When the value of an asset or group of assets will be recovered through a sale transaction rather than continuing use, the assets are reclassified as non-current assets held for sale, or as a disposal group, where the assets are to be sold as a group in a single transaction. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. The Board of Directors must be committed to the sale and completion should be expected within one year from the date of classification. Non-current assets held for sale and disposal groups are valued at the lower of book value and fair value less costs to sell and are no longer depreciated.

Leases

i 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 reduction in the rental expense over the lease term.

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

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

ii Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are capitalised at the inception of the lease at an amount equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance lease obligation and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the obligation.

Inventories

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

Financial instruments

i Trade and other receivables

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

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

iii Trade and other payables
Trade and other payables are recognised at original cost.

iv 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.

v Derivative financial instruments and hedge accounting
The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied, where the necessary criteria under IAS 39 are met. It also used inflation swap contracts and gilt hedges during the year to mitigate its anticipated exposure to movements in the retail price index and the value of its fixed rate debt; these contracts were closed out prior to the year end. 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 remeasured 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 directly 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.

vi Equity instruments
Equity instruments issued by the Company are recorded at the fair value of the proceeds received, net of direct issue costs.

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

On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at weighted 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 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.

Tax
The income tax expense represents both the income tax payable, based on profits for the year, and deferred tax and is calculated using tax rates enacted or substantively enacted at the balance sheet date. 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.

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continued

1. General information continued

Employee benefits
i Pension obligations
The Group has both defined benefit and defined contribution pension arrangements.

The liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions, the determination of which is significant to the balance sheet valuation. These are set out and discussed in note 8 'Pensions'. The current service cost, together with the cost of any benefits relating to past service, is charged to operating profit. 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 recognised income and expense, rather than the income statement.

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

ii 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 generally 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 a combination of Black-Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

The Group has taken advantage of the transitional provisions of IFRS 2 'Share-based Payment' and applied its requirements to only those awards granted after 7 November 2002 that had not vested before 1 January 2005.

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

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

Dividends
Dividends proposed by the Board but unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Adjusted profit
In addition to presenting information on an IFRS basis, the Group also presents information that excludes exceptional items and IAS 39 movements (see below). This 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, which include profits and losses on disposal of properties, are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. IAS 39 movements represent movements in the fair value of the Group's derivative financial instruments which are commercially effective but which do not qualify for hedge accounting and are therefore recognised in the income statement. Adjusted profit excludes exceptional items and the IAS 39 movements. Exceptional items and IAS 39 movements and the related tax on these are excluded from the calculation of adjusted earnings per share.

Recent accounting developments
The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group. The Directors do not anticipate that the adoption of the new standards or revisions to existing standards will have a material impact on the Group's financial statements in the period of initial adoption and expects that there will be no material impact on reported income or net assets.

IFRS 8 'Operating Segments'–replaces IAS 14 and requires segment information to be presented on the same basis as used for internal reporting purposes. IFRS 8 is effective for periods beginning on or after 1 January 2009.

Revised IAS 23 'Borrowing Costs'–the revision, which is effective 1 January 2009, requires costs which are directly attributable to assets that take a substantial period of time before they are ready for use or sale, to be capitalised; previously it was possible to choose whether to capitalise or expense such borrowing costs.

IFRIC 14 'IAS 19–the limit on a defined benefit asset, minimum funding requirements and their interaction' is effective for accounting periods beginning on or after 1 January 2008 and provides guidance on the amount of any pension surplus to be recognised as an asset.

Exchange rates
The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the financial period of £1 = €1.31 (2007 £1 = €1.48), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US denominated

assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.26 (2007 £1 = €1.43) and £1 = $1.84 (2007 £1 = $2.04) respectively.

2. Prior year adjustment

The Group noted in the 2007 Annual report and accounts that it had recognised a prior year adjustment. The adjustment related to the deferred tax provision for the future tax payable on the theoretical disposal of all of the Group's land and buildings. As a result of obtaining more detailed analysis of the tax base cost for individual assets, the Group demonstrated that the deferred taxation provision as at 1 October 2006 was understated by £76m. In order to correct this understatement the Group increased its deferred taxation provision as at 1 October 2006 by £76m, with a corresponding entry recognised in retained earnings at the same date. This adjustment was recognised through a prior year adjustment as the understatement represented an error which it would not be appropriate to correct prospectively. The impact of the adjustment to retained earnings as at 1 October 2006 is included in the 'Reconciliation of movements in equity' note on page 94.

3. Segmental analysis

The Group's primary reporting format is by business segment and its secondary format is by geographic segment. The Group has two main retail operating segments: Pubs & Bars, focusing primarily on drink and entertainment-led sites, and Restaurants, focusing on food and accommodation-led sites. The other Group activity is property development which is undertaken by Standard Commercial Property Developments Limited ('SCPD'). There are no inter-segment sales.

	2008 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Revenue						
Sales to third-parties	954	939	1,893	15	–	1,908
Operating profit						
Operating profit before exceptional items	176	156	332	11	–	343
Exceptional items	(134)	(66)	(200)	–	(12)	(212)
Operating profit after exceptional items	42	90	132	11	(12)	131
Net finance costs						(369)
Tax credit						62
Loss for the financial period						(176)

	2007 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Revenue						
Sales to third-parties	968	908	1,876	18	–	1,894
Operating profit						
Operating profit before exceptional items	191	145	336	7	–	343
Exceptional items	(17)	(10)	(27)	–	(7)	(34)
Operating profit after exceptional items	174	135	309	7	(7)	309
Net finance costs						(357)
Tax credit						38
Loss for the financial period						(10)

	2008 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Net assets						
Assets	2,268	2,506	4,774	16	–	4,790
Liabilities	(140)	(136)	(276)	(1)	–	(277)
Segmental net assets	2,128	2,370	4,498	15	–	4,513
Net debt					(2,735)	(2,735)
Other unallocated liabilities[a]					(603)	(603)
					(3,338)	1,175
Other						
Capital expenditure	95	172	267	–	–	267
Depreciation and amortisation	67	67	134	–	–	134

[a] Includes balances relating to derivatives, pensions, deferred and current tax and non-operating payables

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continued

3. Segmental analysis continued

	2007 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Net assets						
Assets	2,445	2,709	5,154	16	–	5,170
Liabilities	(123)	(112)	(235)	(6)	–	(241)
Segmental net assets	2,322	2,597	4,919	10	–	4,929
Net debt					(2,479)	(2,479)
Other unallocated liabilities[a]					(874)	(874)
					(3,353)	1,576
Other						
Capital expenditure	110	150	260	–	–	260
Depreciation and amortisation	66	63	129	–	–	129

[a] Includes balances relating to derivatives, pensions, deferred and current tax and non-operating payables

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

	UK		Germany		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Revenue – sales to third-parties	1,868	1,859	40	35	1,908	1,894
Segment assets	4,777	5,131	13	39	4,790	5,170
Capital expenditure	264	257	3	3	267	260

4. Operating costs

	2008 52 weeks £m	2007 52 weeks £m
Raw materials and consumables	545	511
Changes in inventory of finished goods and work in progress	(1)	4
Staff costs (note 6)	494	506
Hire of plant and machinery	31	34
Operating lease rentals:		
– minimum lease payments	46	46
– contingent rents	2	2
Other costs	326	330
	1,443	1,433
Depreciation of property, plant and equipment	129	122
Amortisation of intangible assets	4	6
Depreciation of lease premiums	1	1
Total impairment	206	50
Depreciation, amortisation and impairment	340	179
	1,783	1,612

5. Auditors' remuneration

	2008 52 weeks £m	2007 52 weeks £m
Audit of the financial statements	0.2	0.1
Audit of the Company's subsidiaries	0.4	0.4
	0.6	0.5
Other fees to auditors:		
– taxation and other services	0.1	0.1
– corporate finance services	0.2	0.5
	0.3	0.6

The auditors' fee for the audit of the parent company was £22,000 (2007 £21,000).
Substantially all of the auditors' remuneration was paid in the UK.

6. Employees and Directors

	2008 52 weeks £m	2007 52 weeks £m
Costs		
Wages and salaries	445	447
Share-based payments (note 7)	4	8
Total wages and salaries	449	455
Social security costs	30	37
Pensions (note 8)	15	14
	494	506

	Number	Number
Average number of employees, including part-time employees		
Retail	40,773	42,740
SCPD	1	1
	40,774	42,741

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Remuneration report on pages 52 to 63.

7. Share-based payments

The expense recognised for share-based payments in the year is £4m (2007 £8m) which comprises share option schemes and share awards.

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

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

Sharesave Plan

The Sharesave Plan is a 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. 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 one year's 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 open to all UK employees with at least 18 months service at the date of award. The plan awards free shares to participating employees based on salary, up to a maximum award of £3,000 per employee per year. There are no performance conditions. There is a vesting period of two years (as defined in IFRS 2) from the award date. Shares are generally held in 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 may be deferred into Mitchells & Butlers plc shares with one Matching Share awarded for every Bonus Share. From the grant in December 2006 participants are also 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.

Matching Shares will only be released in full if the Group's adjusted earnings per share over the three year performance period ending 27 September 2008, exceeds by at least 27%, the increase in the UK Retail Price Index for the same period. For the grant in December 2006 (relating to the 2005/06 bonus year) the earnings per share related performance condition still applies in respect of Matching Shares, however, it is now determined with reference to the average adjusted earnings per share growth over the three year performance period exceeding the UK Retail Price Index growth.

All outstanding awards vest three years after the award date and shares are transferred to participants on vesting.

No award was granted relating to the 2006/07 bonus year due to the loss suffered by the Company from the hedge closure.

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

Performance Restricted Share Plan

The Performance Restricted Share Plan allows Executive Directors and other eligible employees to receive nominal cost options, subject to the satisfaction of performance conditions, set by the Remuneration Committee, which are normally measured over a three-year period. Vesting is conditional upon the achievement of total shareholder return ('TSR') and cash return on cash capital employed ('CROCCE') performance conditions. The vesting period for these options is generally three years followed by a two year exercise period. In respect of the TSR performance condition, Monte Carlo simulations were performed to incorporate the market condition in the measurement of the fair value. For all grants from 2005/06 onwards, 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.

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7. Share-based payments continued

Executive Share Option Plan
The grant of options under the Executive Share Option Plan was discontinued following shareholder approval of changes to Executive Director remuneration in 2006. The last grant of options under this plan was made in June 2005. The option prices were set at an amount not less than the average market value of a share over the three business days immediately prior to the date of grant.

The vesting period for these options is three years from grant, followed by a seven year exercise period.

Rolled-over options
Under the terms of the separation in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over Mitchells & Butlers plc shares. The exchanged options are not subject to performance conditions and were immediately exercisable. The latest possible exercise date for any of the Rolled-over options outstanding at 27 September 2008, is 28 May 2012.

Further details of the above schemes are included in the Remuneration report on pages 52 to 63.

The following tables set out awards and options granted during 2008. No options under the Executive Share Option Plan or Rolled-over options were granted during the period and no award was made under the Short-Term Deferred Incentive Plan during the period, as noted above.

2008	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan
Number of shares/options awarded	4,092,648	1,979,109[a]	469,004

[a] Options granted are shown net of immediate lapses

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:

2008	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo Simulation and Binomial	Black-Scholes
Weighted average share price	210.0p	221.5p
Exercise price	–[a]	259.0p
Expected dividend yield	–[b]	3.10%
Risk-free interest rate	5.23%	5.21%
Volatility[c]	34.0%	34.0%
Expected life (years)[d]	2.44	3.95

2007	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo Simulation and Binomial	Black-Scholes
Weighted average share price	685.0p	869.5p
Exercise price	–[a]	711.0p
Expected dividend yield	–[b]	1.80%
Risk-free interest rate	4.78%	5.19%
Volatility[c]	24.0%	24.0%
Expected life (years)[d]	3.0	3.79

[a] The exercise price relating to the Performance Restricted Share Plan is £1 per participating employee per exercise
[b] The expected dividend yield input for the grant of Performance Restricted Share Plan options in 2007 and 2008 is zero as participants are entitled to Dividend Accrued Shares to the value of the 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. Where insufficient share price data is available, competitor share price volatility data over a longer period equal to the expected life of the option or share award is considered.
[d] The expected term of the options is taken to be the midpoint between vesting and lapse, except for the Performance Restricted Share Plan where the terms of the plan resulted in it being advantageous for participants to exercise directly after vesting. In this case the expected life has been assumed to equate to the vesting period.

The fair value of awards under the Short-Term Deferred Incentive Plan is 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 this scheme.

There was no award under the Short-Term Deferred Incentive Plan in 2008 as the Executive Directors' bonuses for the 2006/07 year were forgone due to the loss suffered on the hedge closure.

The fair value of the Share Incentive Plan shares is equal to the share price on the date of grant as there is no price to be paid and employees are entitled to dividends during the vesting period. Hence the assumptions set out above are not relevant to this scheme.

Movements in the awards and options outstanding under these schemes for the years ended 27 September 2008 and 29 September 2007 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 1 October 2006	751	5,167	879
Granted	247	1,446	115
Exercised	(253)	(1,019)	(75)
Lapsed	–	(542)	(44)
Share consolidation[a]	–	–	(149)
Outstanding at 29 September 2007	745	5,052	726
Granted	–	4,093	469
Exercised	(173)	(828)	(79)
Lapsed	–	(612)	(45)
Outstanding at 27 September 2008	572	7,705	1,071
Fair value of options granted during the period (pence)			
At 27 September 2008	–[b]	107.5[c]	205.0
At 29 September 2007	721.5	477.6[c]	879.5
Weighted average remaining contract life (years)			
At 27 September 2008	0.6	3.7	–[d]
At 29 September 2007	1.3	3.2	–[d]

a The allocated shares in the SIP Trust were consolidated as part of the share consolidation on 18 October 2006, resulting in a reduction of 149,250 shares
b There was no grant under the Short-Term Deferred Incentive Plan during the year as the Executive Directors' bonuses were forgone due to the loss suffered on the hedge closure
c For the Performance Restricted Share Plan the weighted average fair value is shown
d SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group

	Executive Share Option Plan		Sharesave Plan		Rolled-over options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 1 October 2006	9,740	268.9	5,195	235.4	3,101	278.7
Granted	–	–	939	711.0	–	–
Exercised	(1,980)	227.6	(1,316)	169.6	(1,475)	283.8
Lapsed	(1)	326.1	(585)	292.4	–	–
Options outstanding at 29 September 2007	7,759	279.5	4,233	353.5	1,626	274.1
Granted	–	–	1,979	259.0	–	–
Exercised	(646)	252.7	(585)	209.5	(104)	345.0
Lapsed	(144)	326.1	(1,002)	503.4	(66)	364.5
Options outstanding at 27 September 2008	6,969	281.0	4,625	298.8	1,456	265.0
Options exercisable						
At 27 September 2008	6,969	281.0	32	209.0	1,456	265.0
At 29 September 2007	4,408	244.0	6	169.0	1,626	274.1
Fair value of options granted during the period (pence)						
At 27 September 2008	–		46.8[a]		–	
At 29 September 2007	–		274.1[a]		–	
Range of option prices (pence)						
At 27 September 2008		219.0–330.5		169.0–711.0		214.5–286.7
At 29 September 2007		219.0–330.5		169.0–711.0		214.5–364.5

a Weighted average fair value has been shown for the Sharesave Plan

The weighted average share price during the period was 387.9p (2007 737.4p).

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7. Share-based payments continued

Summarised information about options outstanding at 27 September 2008 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[a]	7,705	3.7	–[a]	149	2.2	–[a]
Executive Share Option Plan						
219.0	920	4.7	219.0	920	4.7	219.0
252.5	2,935	5.7	252.5	2,935	5.7	252.5
326.1 to 330.5	3,114	6.7	326.2	3,114	6.7	326.2
	6,969	6.0	281.0	6,969	6.0	281.0
Sharesave Plan						
169.0	846	0.5	169.0	–	–	–
209.0	310	1.4	209.0	32	–	209.0
258.5	577	1.2	258.5	–	–	–
401.0	460	2.0	401.0	–	–	–
711.0	467	3.0	711.0	–	–	–
259.0	1,965	4.1	259.0	–	–	–
	4,625	2.6	298.8	32	–	209.0
Rolled-over options						
214.5 to 242.0	35	1.4	214.5	35	1.4	214.5
242.1 to 286.7	1,421	2.5	266.2	1,421	2.5	266.2
	1,456	2.5	265.0	1,456	2.5	265.0

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

8. Pensions

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. 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.

The valuations used for IAS 19 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2007 and updated by the schemes' qualified actuaries to 27 September 2008. Scheme assets are stated at market value at 27 September 2008 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

In the 52 weeks ended 27 September 2008, the Group paid regular contributions of £16m (2007 £10m) and additional contributions of £24m (2007 £40m) in respect of the defined benefit arrangements. In addition the Group paid £2m (2007 £1m) in respect of the defined contribution arrangements.

The results of the 2007 actuarial valuation showed a funding deficit using a more prudent basis to discount the scheme liabilities than is required by IAS 19 and on 23 April 2008 the Company formally agreed a recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The result of this is that the Group has made additional contributions of £24m during the current financial year of which £20m represented the final instalment of the previously agreed schedule of contributions and will make further additional contributions of £24m in each of the financial years from 2009 to 2017, subject to review following the next actuarial valuation at 31 March 2010. Employer contribution rates to the defined benefit arrangements for the 52 weeks ending 26 September 2009 are 24.2% for the MABPP and 48.5% for the MABEPP. Based on these contribution rates, it is estimated that total contributions in the 52 weeks ended 26 September 2009 will be £40m, comprising regular contributions of £16m, including £2m payable in respect of the defined contribution arrangements and additional contributions of £24m.

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

The principal financial assumptions used by the actuaries at the balance sheet date were:

	2008	2007	2006	2005	2004
Wages and salaries increases	5.0%[a]	4.9%[a]	4.4%	4.3%	4.3%
Pensions increases	3.5%	3.4%	2.9%	2.8%	2.8%
Discount rate	6.5%	5.9%	5.0%	5.0%	5.5%
Inflation rate	3.5%	3.4%	2.9%	2.8%	2.8%

[a] For MABPP members (6.0% for MABEPP members (2007 5.9%)). Includes allowance for promotional salary increases.

The discount rate applied to the pension schemes' liabilities is significant to 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 this rate would, in isolation, reduce or increase the net balance sheet deficit by approximately £20m, with no impact on the income statement charge.

Mortality assumptions

The mortality assumptions are based on the PA92 'year of birth' standard tables with allowance for medium cohort projections, with ages rated up by two years for non-retired members of the MABPP, by three years for current pensioners and rated down by two years for members of the MABEPP. The mortality assumptions adopted have been updated to allow for improvements in life expectancies, taking into account an analysis of the recent experience of the plans. A summary of the average life expectancies assumed is as follows:

	2008		2007	
	Main plan years	Exec plan years	Main plan years	Exec plan years
Male member aged 65 (current life expectancy)	19.4	23.6	19.4	23.6
Male member aged 45 (life expectancy at 65)	21.2	24.8	21.2	24.8
Female member aged 65 (current life expectancy)	22.2	26.5	22.2	26.5
Female member aged 45 (life expectancy at 65)	24.0	27.7	24.0	27.7

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 was 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 6.1% (2007 6.1%). The 2006 weighted average expected return was 6.3% comprising: equities 7.5%; bonds 4.6%; properties 7.5%. The actual investment return achieved on the scheme assets over the year was (5.4)% (2007 9.1%), which represented a loss of £71m (2007 gain of £83m).

The long-term rates of return on assets at 27 September 2008 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2008 financial year. The 2007 rates shown are used in calculating the 2008 expected return.

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:

	2008		2007	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	8.2	359	7.9	345
Bonds	5.3	814	5.9	854
Property	8.2	38	7.9	93
Fair value of assets		1,211		1,292
Present value of scheme liabilities		(1,234)		(1,310)
Deficit in the schemes recognised as a liability in the balance sheet		(23)		(18)
Associated deferred tax asset		6		5

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 recognised income and expense:

Group income statement	2008 £m	2007 £m
Operating profit:		
Current service cost (defined benefit plans)	(13)	(13)
Current service cost (defined contribution plans)	(2)	(1)
Charge to operating profit	(15)	(14)
Finance income:		
Expected return on pension scheme assets	79	74
Interest on pension scheme liabilities	(76)	(63)
Net finance income in respect of pensions	3	11
Total charge	(12)	(3)

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8. Pensions continued

Group statement of recognised income and expense	2008 £m	2007 £m
Actual return less expected return on pension scheme assets	(150)	24
Changes in assumptions underlying the present value of the scheme liabilities	115	9
Actuarial (loss)/gain recognised	(35)	33

The table below analyses the movement in the schemes' net deficit in the period:

	Pension assets		Pension obligations		Net deficit	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
At beginning of period	1,292	1,182	(1,310)	(1,281)	(18)	(99)
Current service cost	–	–	(13)	(13)	(13)	(13)
Interest cost on benefit obligations	–	–	(76)	(63)	(76)	(63)
Expected return on plan assets	79	74	–	–	79	74
Employee contributions	3	4	(3)	(4)	–	–
Employer contributions	40	50	–	–	40	50
Benefits paid	(53)	(42)	53	42	–	–
Actuarial (loss)/gain recognised	(150)	24	115	9	(35)	33
At end of period	1,211	1,292	(1,234)	(1,310)	(23)	(18)

History of experience gains and losses:	2008	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets						
Amount (£m)	(150)	24	43	100	27	39
Percentage of scheme assets	(12)%	2%	4%	9%	3%	5%
Experience gains and losses on scheme liabilities						
Amount (£m)	–	–	–	–	20	(11)
Percentage of the present value of the scheme liabilities	–	–	–	–	2%	(1)%
Total amount recognised in the Group statement of recognised income and expense						
Amount (£m)	(35)	33	27	(7)	39	(71)
Percentage of the present value of the scheme liabilities	(3)%	3%	2%	(1)%	4%	(7)%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of recognised income and expense is a £18m gain (2007 £53m gain). 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 recognised income and expense before 26 September 2004.

9. Exceptional items

	2008 52 weeks £m	2007 52 weeks £m
Operating exceptional items		
Integration costs[a]	–	(4)
Corporate restructuring costs[b]	–	(7)
Strategic review costs[c]	(12)	–
	(12)	(11)
Profits on disposal of properties	19	39
Losses on disposal of properties	(13)	(12)
Net profit arising on property disposals	6	27
Impairment arising from the revaluation of the property portfolio[d]	(160)	(45)
Impairment arising on classification of non-current assets held for sale[e]	(46)	(5)
Total impairment	(206)	(50)
Total operating exceptional items	(212)	(34)
Exceptional finance costs		
Movement in fair value of derivative financial instruments closed out in the period[f] (note 10)	(182)	(204)
	(182)	(204)
Total exceptional items before tax	(394)	(238)
IAS 39 movements (note 10)	(23)	(17)
Total exceptional items and IAS 39 movements before tax	(417)	(255)
Tax credit relating to above items	88	74
Exceptional tax released in respect of prior years[g]	14	9
Tax credit in respect of change in tax rate[h]	–	17
Tax credit in respect of change in tax legislation[i]	12	–
	114	100
Total exceptional items and IAS 39 movements after tax	(303)	(155)

a Costs associated with the integration of the 239 pub restaurant sites acquired from Whitbread on 21 July 2006
b Expenditure incurred in connection with the evaluation of alternative corporate structures for the separation and refinancing of the Group's property portfolio and operating business
c Professional fees incurred in connection with the Group's review of strategic options for value creation
d Impairment arising from the Group's valuation of its property estate
e Impairment arising on the carrying value of property, plant and equipment and goodwill, prior to transferring these to non-current assets held for sale, where the expected net sale proceeds are less than the book value
f Movement in fair value of derivative financial instruments closed out in the period is the fair value movement during the period of the derivative financial instruments closed out in January 2008. The sum of the movement of £182m charged this period and the amount of £204m charged in the prior year represents the total cash cost of terminating these instruments.
g Represents the release of provisions relating to tax matters which have been settled principally relating to disposals and qualifying capital expenditure
h A deferred tax credit was recognised in the prior year following the enactment of legislation in July 2007 which lowered the UK standard rate of corporation tax from 30% to 28% with effect from 1 April 2008
i Following recent legislative changes to the tax regime for hotels, a tax credit of £12m has arisen in the period in respect of the release of deferred tax on hotel assets

All exceptional items relate to continuing operations.

10. Finance costs and revenue

	2008 52 weeks £m	2007 52 weeks £m
Finance costs		
Securitised and other debt		
– before exceptional charge	(174)	(153)
Exceptional finance costs (note 9)		
– movement in fair value of derivative financial instruments closed out in the period	(182)	(204)
IAS 39 movements[a]	(23)	(17)
	(205)	(221)
	(379)	(374)
Finance revenue		
Interest receivable	7	6
Net finance income from pensions (note 8)	3	11

a IAS 39 movements represent the movements during the period in the fair value of the Group's derivative financial instruments which are commercially effective but do not qualify for hedge accounting

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11. Tax expense

	2008 52 weeks £m	2007 52 weeks £m
Tax charged in the income statement		
Current tax (credit)/expense:		
UK corporation tax	1	40
Amounts overprovided in previous years	(16)	(5)
Total current tax	(15)	35
Deferred tax:		
Origination and reversal of temporary differences	(36)	(51)
Adjustments in respect of prior years	1	(5)
Change in tax rate	–	(17)
Change in tax legislation	(12)	–
Total deferred tax (note 22)	(47)	(73)
Total tax credited in the income statement	(62)	(38)

	2008 52 weeks £m	2007 52 weeks £m
Tax on items recognised directly in equity		
Unrealised losses/(gains) due to revaluations	64	(292)
Actuarial losses/(gains) on pension schemes	10	(10)
Share-based payments	(11)	3
Derivative financial instruments	14	(21)
Change in tax rate	–	30
Total tax credit/(charge) on items recognised directly in equity	77	(290)

Reconciliation of the total tax charge
The tax credit in the income statement for the year is lower (2007 higher) than the standard rate of corporation tax in the UK of 29% (2007 30%). The differences are reconciled below:

	2008 52 weeks £m	2007 52 weeks £m
Loss before tax	(238)	(48)
Accounting loss multiplied by the UK standard rate of corporation tax of 29% (2007 30%)	(69)	(14)
Expenses not deductible for tax purposes	34	3
Adjustments in respect of prior years	(15)	(10)
Exceptional tax credit in respect of change in tax rate	–	(17)
Exceptional tax credit in respect of change in tax legislation	(12)	–
Total tax credit reported in the income statement	(62)	(38)

12. Dividends

	2008 52 weeks £m	2007 52 weeks £m
Amounts paid and recognised in equity		
In respect of the 52 weeks ended 30 September 2006		
– Final dividend of 8.60p per share	–	35
In respect of the 52 weeks ended 29 September 2007		
– Special interim dividend of 100.00p per share	–	486
– Interim dividend of 4.25p per share	–	17
– Final dividend of 10.00p per share	40	–
In respect of the 52 weeks ended 27 September 2008		
– Interim dividend of 4.55p per share	18	–
	58	538

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

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

Earnings per ordinary share amounts are presented before exceptional items (see note 9) and the IAS 39 movements (see note 10) in order to allow a better understanding of the underlying trading performance of the Group.

	Profit/(loss) £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 27 September 2008:			
Loss for the period	(176)	(43.7)p	(43.7)p[a]
Exceptional items, net of tax	286	71.0p	70.1p
IAS 39 movements, net of tax	17	4.2p	4.2p
Adjusted profit/EPS	127	31.5p	31.1p
52 weeks ended 29 September 2007:			
Loss for the period	(10)	(2.5)p	(2.5)p[a]
Exceptional items, net of tax	143	35.0p	34.0p
IAS 39 movements, net of tax	12	3.0p	2.9p
Adjusted profit/EPS	145	35.5p	34.4p

[a] The diluted EPS per ordinary share is unchanged from the basic EPS, as the inclusion of the dilutive potential ordinary shares would reduce the loss per share and is therefore not dilutive in accordance with IAS 33 'Earnings per Share'

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

	2008 52 weeks m	2007 52 weeks m
For basic EPS calculations	403	408
Effect of dilutive potential ordinary shares:		
Contingently issuable shares	3	8
Other share options	2	5
For diluted EPS calculations	408	421

At 27 September 2008, 4,654,653 (2007 1,034,538) 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.

14. Goodwill and other intangible assets

	Computer software £m	Goodwill £m	Total £m
Cost			
At 1 October 2006	27	10	37
Foreign exchange	–	–	–
Additions	1	–	1
Disposals	(6)	–	(6)
At 29 September 2007	22	10	32
Foreign exchange	–	1	1
Additions	–	–	–
Disposals	(12)	–	(12)
Impairment arising on classification of non-current assets held for sale	–	(11)	(11)
At 27 September 2008	10	–	10
Accumulated amortisation			
At 1 October 2006	15	–	15
Provided during the year	6	–	6
Disposals	(6)	–	(6)
At 29 September 2007	15	–	15
Provided during the year	4	–	4
Disposals	(12)	–	(12)
At 27 September 2008	7	–	7
Net book value			
At 27 September 2008	3	–	3
At 29 September 2007	7	10	17

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

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14. Goodwill and other intangible assets continued

Impairment tests for goodwill
Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired.

Goodwill relates entirely to the German business, which is also the non-UK reportable segment. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

In prior periods, the impairment review has been based on the estimated value in use of the German business to the Group. Value in use has been calculated with reference to current year cash flows, applying a steady 1.5% growth rate to revenues, based on the long-term estimated inflation rate for the German market and applying current margins. The discount rate used in the prior year to calculate value in use was derived from the Group's weighted average cost of capital, adjusted for specific risks relating to the German business.

Following the conclusion of the strategic review in May 2008 that the Group would seek to create additional value from the German business, the Group has deemed it appropriate to value the business based on its estimated arm's length market value as at 27 September 2008. Accordingly, it has fully provided for impairment against the goodwill associated with the business, as it does not anticipate that the market value would be sufficient to recover the goodwill carrying value.

15. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 October 2006	3,267	906	4,173
Exchange differences	1	–	1
Additions	105	154	259
Revaluation	1,042	–	1,042
Disposals[a]	(37)	(79)	(116)
Impairment arising on classification of non-current assets held for sale	(2)	(3)	(5)
Classified as held for sale	(5)	(4)	(9)
At 29 September 2007	4,371	974	5,345
Exchange differences	4	2	6
Additions	159	108	267
Revaluation	(343)	–	(343)
Disposals[a]	(133)	(129)	(262)
Impairment arising on classification of non-current assets held for sale	(33)	(2)	(35)
Classified as held for sale	(104)	(41)	(145)
At 27 September 2008	3,921	912	4,833
Depreciation			
At 1 October 2006	97	209	306
Exchange differences	–	1	1
Provided during the year	21	101	122
Disposals[a]	–	(70)	(70)
Classified as held for sale	(4)	(3)	(7)
Revaluation	(37)	–	(37)
At 29 September 2007	77	238	315
Exchange differences	1	2	3
Provided during the year	23	106	129
Disposals[a]	(3)	(108)	(111)
Classified as held for sale	(16)	(15)	(31)
Revaluation	(17)	–	(17)
At 27 September 2008	65	223	288
Net book value			
At 27 September 2008	3,856	689	4,545
At 29 September 2007	4,294	736	5,030
At 1 October 2006	3,170	697	3,867

[a] Includes assets which are fully depreciated and have been removed from the fixed asset ledger

Certain assets with a net book value of £19m 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 land and buildings was adopted on 29 September 2007. Short leasehold properties and fixtures, fittings and equipment are held at deemed cost at transition to IFRS less depreciation and impairment, which is also considered by the Group to be a reasonable approximation to their fair value. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their net realisable value where this is lower. The Group accounts for long leasehold land as an operating lease.

The freehold and long leasehold land and buildings were valued at market value, as at 27 September 2008 and 29 September 2007 by Colliers CRE plc, independent chartered surveyors and by Andrew Cox MRICS, Director of Property, Chartered Surveyor. 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 the location, the quality of the pub or 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 land and buildings.

Included within property, plant and equipment are assets with a net book value of £3,974m (2007 £4,321m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

On 19 September 2008, the Group announced that it had completed a deal to exchange 21 of its hotels (these were included within the 'Restaurants' operating segment, see note 3, segmental analysis, until the date of completion) for 44 individual pub restaurants owned by Whitbread PLC. The hotels, which were carried at net book value of £78m are included within disposals above. The pub restaurants acquired are included at their fair value of £85m within additions, including £3m of stamp duty land tax and £5m of costs which were directly related to the asset exchange. No profit or loss arose on the transaction and no cash proceeds were received.

Finance leases

The net book value of fixtures, fittings and equipment includes £2m (2007 £2m) in respect of assets held under finance leases. The assets are pledged as security for the finance lease liabilities.

Net book value[a]

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

	2008 £m	2007 £m
Freehold	3,476	3,824
Leasehold:		
– unexpired term of more than 50 years	258	325
– unexpired term of 50 years or less	122	145
	3,856	4,294

[a] The carrying value of freehold and long leasehold land and buildings based on their historic cost (or deemed cost at transition to IFRS), is £3,331m and £298m respectively

In addition to the above, premiums paid on acquiring a new lease are classified in the balance sheet as prepayments of rentals under the leases. At 27 September 2008 an amount of £11m (2007 £12m) was included in the balance sheet.

16. Inventories

	2008 £m	2007 £m
Work in progress[a]	13	15
Goods held for resale	26	23
	39	38

[a] Work in progress is in respect of property developments

17. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	2	1
Other receivables	56	39
Prepayments	22	29
	80	69

All amounts fall due within one year.

Trade and other receivables are non-interest bearing.

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18. Non-current assets held for sale

	Disposal group		Assets held for sale		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Pubs & Bars						
Land and buildings	1	–	9	4	10	4
Fixtures, fittings and equipment	–	–	3	1	3	1
	1	–	12	5	13	5
Restaurants						
Land and buildings	57	–	21	1	78	1
Fixtures, fittings and equipment	12	–	11	–	23	–
	69	–	32	1	101	1
Total	70	–	44	6	114	6
Impairment arising on classification as non-current assets held for sale	34	–	1	5	35	5

Non-current assets held for sale and the disposal group comprise certain operating assets which have been approved for sale, such that the carrying amount is expected to be recovered through a sale, rather than through continuing use. Sales are expected within 12 months from the date of classification.

The impairment arising on classification as non-current assets held for sale forms part of the total impairment in the income statement. The carrying values included within the disposal group and assets held for sale categories above are stated after this adjustment. The charge against income is shown as 'Impairment arising on classification of non-current assets held for sale' in note 9 'Exceptional items'.

19. Trade and other payables

	2008 £m	2007 £m
Trade payables	103	80
Other taxation and social security	68	50
Accrued charges	63	57
Other payables	42	56
	276	243

Trade and other payables are non-interest bearing.

20. Borrowings

	2008			2007		
Group	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt[a,b]	43	2,296	2,339	40	2,316	2,356
Other borrowings[b]	46	458	504	192	–	192
Loan notes[c]	–	–	–	2	–	2
Finance leases (note 31)	–	1	1	–	1	1
Total borrowings	89	2,755	2,844	234	2,317	2,551

[a] This debt is secured as explained on page 85
[b] Stated net of deferred issue costs
[c] The loan notes repaid during the year were partially secured by a bank deposit. Their effective interest rate at 29 September 2007 was 6.03%.

	2008 £m	2007 £m
Analysis by year of repayment[a]		
Due within one year or on demand	89	234
Due between one and two years	243	43
Due between two and five years	1,446	517
Due after five years	1,066	1,757
Total borrowings	2,844	2,551

[a] The analysis by year of repayment is calculated on the basis that the Group's securitised loan notes are refinanced on the margin step-up dates, however, the Group has an unconditional right to continue to hold the individual loan note tranches through to their final maturity dates (the analysis of loan notes below includes the principal repayment periods).

Securitised debt
On 13 November 2003, a group company, Mitchells & Butlers Finance plc, issued £1,900m of secured loan notes in connection with the securitisation of the majority of the Group's UK pubs and restaurants business owned by Mitchells & Butlers Retail Ltd. The funds raised were mainly used to repay existing bank borrowings of £1,243m, pay issue costs of £23m and return £501m to shareholders by way of a special dividend.

On 15 September 2006 Mitchells & Butlers Finance plc completed the issue of £655m of further secured loan notes in the form of the A4, AB, C2 and D1 loan notes as detailed below. These were issued under substantially the same terms as the original securitisation in November 2003. The funds raised were mainly used to return £486m to shareholders by way of a special dividend and to provide long-term funding for the Whitbread pub restaurant sites acquired. As part of the issue, the original A1 and A3 loan note tranches were repaid and reissued as A1N and A3N loan notes to take advantage of market rates.

At 27 September 2008 the loan notes consisted of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 27 September 2008 £m	Expected WAL[c]
A1N	200	Floating	2011 to 2028	5.69[b]	200	2 years
A2	550	Fixed–5.57%	2003 to 2028	6.01	429	8 years
A3N	250[a]	Floating	2011 to 2028	5.92[b]	250[a]	2 years
A4	170	Floating	2016 to 2028	5.24[b]	170	5 years
AB	325	Floating	2020 to 2032	5.25[b]	325	5 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	291	6 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	350	16 years
C1	200	Fixed–6.47%	2029 to 2030	6.57	200	21 years
C2	50	Floating	2033 to 2034	5.44[b]	50	5 years
D1	110	Floating	2034 to 2036	5.50[b]	110	5 years
	2,555[a]				2,375[a]	

At 29 September 2007 the loan notes consisted of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 29 September 2007 £m	Expected WAL[c]
A1N	200	Floating	2011 to 2028	5.69[b]	200	3 years
A2	550	Fixed–5.57%	2003 to 2028	6.01	456	9 years
A3N	250[a]	Floating	2011 to 2028	5.92[b]	250[a]	3 years
A4	170	Floating	2016 to 2028	5.24[b]	170	6 years
AB	325	Floating	2020 to 2032	5.25[b]	325	6 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	305	7 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	350	17 years
C1	200	Fixed–6.47%	2029 to 2030	6.57	200	22 years
C2	50	Floating	2033 to 2034	5.44[b]	50	6 years
D1	110	Floating	2034 to 2036	5.50[b]	110	6 years
	2,555[a]				2,416[a]	

a Includes the fair value impact of £22m (2007 £45m) in respect of the currency swaps
b After the effect of interest rate swaps
c The expected remaining weighted average life ('WAL') is based on the amortisation profile of the individual note tranches calculated on the basis of the refinancing of the notes on the margin step-up dates. The Group has an unconditional right to continue to hold the individual note tranches through to their final maturity dates however. The margin step-up dates as at 27 September 2008 are set out below.

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

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

Tranche	Interest	Margin	Margin step-up date	Post step-up margin
A1N	3 month LIBOR	0.18%	December 2010	0.45%
A3N	3 month $ LIBOR	0.18%	December 2010	0.45%
A4	3 month LIBOR	0.23%	September 2013	0.58%
AB	3 month LIBOR	0.24%	September 2013	0.60%
C2	3 month LIBOR	0.75%	September 2013	1.88%
D1	3 month LIBOR	0.85%	September 2013	2.13%

The overall cash interest rate payable on the loan notes is 5.7% after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Ltd, 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 27 September 2008, Mitchells & Butlers Retail Ltd had cash and cash equivalents of £118m (2007 £91m) which were governed by the covenants associated with the securitisation. Of this amount £14m (2007 £9m), representing disposal proceeds, was held on deposit in a secured account ('restricted cash'). 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.

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20. Borrowings continued
The carrying value of the securitised debt in the Group balance sheet at 27 September 2008 is analysed as follows:

	2008 £m	2007 £m
Principal outstanding at beginning of period	2,371	2,429
Principal repaid during the period	(41)	(39)
Exchange on translation of dollar loan notes	23	(19)
Principal outstanding at end of period	2,353	2,371
Deferred issue costs	(18)	(20)
Accrued interest	4	5
Carrying value at end of period	2,339	2,356

At 27 September 2008 the Group had the following undrawn committed borrowing facilities:

Undrawn committed borrowing facilities[a]	2008 £m	2007 £m
Unutilised facilities expire:		
Within one year	–	–
Between two and five years	86	108
	86	108

[a] In addition to the undrawn amounts against the £600m term and revolving credit facility the Group holds a £295m liquidity facility against the securitised loan notes, which is not available for any other purpose

On 28 September 2006 the Group entered into a three year £300m revolving credit facility for general business purposes which incurred interest at LIBOR plus a margin. On 21 November 2007, Mitchells and Butlers plc entered into a further £400m facility expiring on 28 September 2009 which was used to fund the settlement of the derivative financial transactions relating to the aborted property joint venture. On 24 July 2008 the Group entered into a three year £600m term and revolving credit facility expiring on 30 November 2011, including a £300m revolving credit facility, for general business purposes which incurs interest at LIBOR plus a margin. The facility has been set at £600m initially, reducing to £550m from December 2008, £400m from December 2009 and £300m by December 2010. The drawings against the original £300m revolving credit facility and £400m facility were repaid using the proceeds of the new £600m medium-term facility and these facilities were cancelled. As at 27 September 2008 the Group had drawn an amount of £504m (net of deferred issue costs) against the £600m facility which forms part of the 'Other borrowings' balance.

21. Financial instruments
Financial risk management
Financial risk management is the responsibility of 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 at least 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, policies and strategies are set out in the discussion of the Treasury Policy Statement on page 30 in the Operating and financial review.

The main financial risks which impact the Group result from Funding and liquidity risk, Credit risk and Market risk, principally as a result of changes in interest and currency rates. These are discussed further below. 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, on a semi-annual basis the Treasury Committee 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) and the £600m medium-term funding facility drawn by Mitchells & Butlers Retail (No 2) Ltd. Further information regarding these arrangements is included in note 20. The terms of both the securitisation and the medium-term facility contain a number of financial covenants. Compliance with these covenants is monitored by Group treasury.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. Committed facilities outside of the securitisation are sized to ensure that the Group 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. The analysis is calculated on the assumption that the Group's securitised loan notes are refinanced on the margin step-up dates, however, the Group has an unconditional right to continue to hold individual loan note tranches through to their final maturity dates.

	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
27 September 2008							
Fixed rate:							
Securitised debt[a]	(179)	(179)	(596)	(137)	(791)	(1,735)	(3,617)
Finance leases	–	(1)	–	–	–	–	(1)
Floating rate:							
Other borrowings	(87)	(227)	(68)	(217)	–	–	(599)
Other derivatives[b]	1	(42)	–	–	–	–	(41)
29 September 2007							
Fixed rate:							
Securitised debt[a]	(179)	(179)	(179)	(596)	(137)	(2,526)	(3,796)
Finance leases	–	(1)	–	–	–	–	(1)
Floating rate:							
Loan notes	(2)	–	–	–	–	–	(2)
Other borrowings	(13)	(13)	(192)	–	–	–	(218)
Other derivatives	(221)	–	–	–	–	–	(221)

a Includes the impact of the cash flow hedges
b The interest rate swaps with a combined notional principal of £225m include a mandatory early termination and settlement provision effective on 15 December 2010, the extension of which is subject to mutual agreement

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' (short term). The amount that can be invested or transacted at various ratings levels is also 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 Moodys, Standard & Poors and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Exceptions are formally reported to the Treasury Committee on a four-weekly basis.

The Group's credit exposure as at 27 September 2008 was:

	2008 £m	2007 £m
Bank and cash	97	90
Derivative financial instruments	–	17
Other receivables[a]	56	39

a The Group may have a right of offset against certain amounts held within this balance

Capital risk
The Group's capital management is driven by the impact on shareholders of the level of total capital employed. It is the Group's policy to maintain a sound capital base to support the continued development of its business.

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 three types of risk: foreign currency risk, interest rate risk and other price risk.

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

US$418.75m of Class A3N floating rate notes which form part of the securitised debt (see note 20). At issuance of the notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and interest elements of the notes.

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 it has no significant currency exposure from its operations.

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21. Financial instruments continued
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 £2.4bn securitisation is 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 100% effective interest rate swaps are held, which are eligible for hedge accounting.

The Group's medium-term facilities totalling £600m are held at floating interest rates based on LIBOR. These facilities are economically hedged in part through interest rate swaps, with an initial notional principal amount of £225m, although these do not qualify for hedge accounting and movements in their mark-to-market values are recognised in the profit and loss account.

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

Sensitivity to 100bps increase in interest rates (£m)	2008 £m	2007 £m
Interest income[a]	2	–
Interest expense[b]	(5)	(2)
Derivative financial instruments (fair values)		
– Profit before tax[c]	43	187
– Total equity[d]	81	82

[a] Represents interest income earned on cash and cash equivalents (these are defined in note 28)
[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 Group Profit Before Tax in respect of derivative financial instruments which do not qualify for hedge accounting (see below) resulting from movements in the fair value of the derivatives
[d] The impact on Equity from movements in the fair value of cash flow hedges (see below)

Derivative financial instruments
Cash flow hedges
At 27 September 2008, the Group held 10 (2007 10) interest rate swap contracts with a nominal value of £1,105m (2007 £1,105m), designated as a hedge of the cash flow interest rate risk of £1,105m (2007 £1,105m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8938% (2007 4.8938%). 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 £11m (2007 £36m asset).

At 27 September 2008 the Group held one (2007 one) cross currency interest rate swap contract, with a nominal value of £250m (2007 £250m), designated as a hedge of the cash flow interest rate and currency risk of £250m (2007 £250m) of the Group's A3N floating rate $418.75m borrowings. The cross currency interest rate swap is held on the balance sheet at a fair value liability of £28m (2007 £48m liability).

The cash flows occur quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a fixed rate, in sterling, of 5.4445% (2007 5.4445%).

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

During the period a loss of £20m (2007 £55m gain) on cash flow hedges was recognised directly in equity. A gain of £30m (2007 £15m loss) was removed from equity and included in the Group income statement for the period.

Derivative financial instruments which do not qualify for hedge accounting
The Group announced on 21 May 2007 its intention to form a property joint venture with R20 Ltd. In the final stage of the planned transaction, the Group and R20 Ltd separately entered into a number of derivative transactions which were intended to be contributed to the joint venture. Their purpose was to fix the variable cash flows resulting from the inflation linked rental payments receivable by the proposed property joint venture and the LIBOR linked interest payments on the new debt, as well as to insulate the Group from movements in the fair value of its fixed rate debt. These instruments did not qualify for hedge accounting as defined in IAS 39. Movements in their fair values were therefore recognised directly in the Group income statement, within exceptional finance costs.

On 29 January 2008, the Group announced that following the deterioration in the mark-to-market deficit on the hedges and with no near term prospect of debt markets permitting a property-based transaction, it had closed out in cash the hedges no longer required (an element of the interest rate swaps was retained as a commercial hedge against the Group's core debt – see below), at a cost of £(274)m after tax. The pre-tax cost of closing out the hedges no longer required, which was also the mark-to-market deficit at that time, was £(386)m. The total fair value movement of the instruments closed out, during the period to January 2008 when they were settled, was £(182)m (2007 £(204)m), reported within exceptional finance costs. The instruments which were closed out, along with their fair value at the point of settlement in January 2008 comprised:

- interest rate swaps with a weighted average fixed interest rate of 5.2152% and a weighted average fair value of £(185)m (2007 £(84)m);
- gilt hedges with a combined notional principal of £1,385m and a fair value of £87m (2007 £34m), and
- inflation swaps, which carried an annual fixed increase of 3.1775% and paid a variable cash flow based on annual increases in the Retail Price Index, with a fair value of £(288)m (2007 £(154)m).

A more detailed description of the instruments is included in the 2007 Annual report and accounts.

The Group continues to hold interest rate swaps with an initial notional principal of £225m and a maturity date of 15 September 2037, as a commercial hedge against part of its £600m three year medium-term facility, which swap the LIBOR based floating interest rate on the facility into a fixed rate of 5.4770%. These swaps do not meet the criteria for hedge accounting and movements in their fair value are therefore recognised directly in the Group income statement, under the heading IAS 39 movements, within finance costs. The swaps had a fair value of £(41)m (2007 £(17)m) as at 27 September 2008 and include a mandatory early termination and settlement provision, effective on 15 December 2010, subject to extension by mutual agreement between the parties.

Cash flows under the above interest rate swaps are payable and receivable on a quarterly basis.

The fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 27 September 2008 and may be subject to material movements in the period subsequent to the balance sheet date.

	Derivative financial instruments – Fair value				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
27 September 2008					
Cash flow hedges					
Interest rate swaps	1	–	(5)	(7)	(11)
Cross currency swap	–	–	(2)	(26)	(28)
Other hedges					
Interest rate swaps	–		(41)	–	(41)
Total	1	–	(48)	(33)	(80)
29 September 2007	30	79	(295)	(47)	(233)

Other price risk

As noted above, in the final stages of its proposed transaction to form a property joint venture with R20 Ltd in July 2007, the Group entered into a number of inflation swaps, to fix the variable cash flows resulting from the inflation linked rental payments receivable by the proposed joint venture. These inflation swaps were closed out in January 2008 following the Board's conclusion that there was no near term prospect of debt markets permitting a property-based transaction.

As these instruments have been closed out during the current financial year there is no sensitivity at 27 September 2008. The maximum exposure of these derivatives to movements in inflation rates during the period that they were held by the Group was £288m.

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21. Financial instruments continued
Fair values
Fair values of financial instruments are disclosed below:

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Primary financial instruments[a] held or issued to finance the Group's operations:				
Cash and cash equivalents	129	129	117	117
Other cash deposits	2	2	–	–
Other borrowings	(504)	(504)	(192)	(192)
Securitised debt (excluding interest rate and currency swaps)	(2,339)	(2,087)	(2,356)	(2,408)
Loan notes	–	–	(2)	(2)
Finance leases	(1)	(1)	(1)	(1)
Provisions	(1)	(1)	(1)	(1)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps:				
– asset	1	1	75	75
– liability	(53)	(53)	(140)	(140)
Currency swaps[b]	(28)	(28)	(48)	(48)
Inflation swaps	–	–	(154)	(154)
Reverse gilt locks	–	–	34	34
	(2,794)	(2,542)	(2,668)	(2,720)

a Excludes working capital items such as trade receivables and payables as their carrying amount is considered to approximate to their fair value
b Includes £22m (2007 £45m) relating to currency movements on the retranslation of the $418.75m A3N loan note, included within net debt (see note 20)

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 book values approximate to fair values.

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

	2008 £m	2007 £m
Deferred tax liability:		
Accelerated capital allowances	93	135
Rolled over and held over gains	200	180
Unrealised gains on revaluations	280	383
Depreciated non-qualifying assets	11	25
Total deferred tax liability	584	723
Deferred tax asset:		
Retirement benefit obligations (note 8)	6	5
Share-based payments	5	20
Derivative financial instruments	15	49
Short-term temporary differences	6	1
Non-trade tax losses	26	–
Total deferred tax asset	58	75
Deferred tax in the income statement:		
Accelerated capital allowances	(42)	(10)
Retirement benefit obligations	9	18
Rolled over and held over gains	6	(7)
Share-based payments	2	1
Short-term temporary differences	(5)	2
Depreciated non-qualifying assets	(2)	(4)
Derivative financial instruments	48	(60)
Unrealised losses on revaluations	(37)	(13)
Non-trade tax losses	(26)	–
Total deferred tax credit in the income statement	(47)	(73)

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £14m (2007 £13m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £6m (2007 £5m) 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.

Tax consequences arising from the payment of dividends

There are no tax consequences attaching to the payment of dividends by the Group to its shareholders.

23. Provisions

	Property leases £m
At 29 September 2007	1
Additions	–
Utilised	–
Amount released in the year	–
At 27 September 2008	1

Onerous property provisions comprise future rents payable net of rents receivable on onerous and vacant property leases. The leases extend for periods of up to six years (2007 seven).

24. Called up share capital

	2008		2007	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8 13/24p each	1,181,130,148	101	1,181,130,148	101
Called up, allotted and fully paid				
Ordinary shares of 8 13/24p each:				
At start of the financial period	403,779,693	34	486,910,806	34
Share capital consolidation	–	–	(83,131,113)	–
Share capital issued	430,686	–	–	–
At end of the financial period	404,210,379	34	403,779,693	34

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.

On 17 October 2006, shareholders approved a share capital consolidation on the basis of 34 new ordinary shares for every 41 existing ordinary shares. This provided for all of the authorised ordinary shares of 7 1/12p each (whether issued or unissued) to be consolidated into new ordinary shares of 8 13/24p each, which became effective on 18 October 2006.

Details of options granted since separation, under the Group's share schemes, are contained in note 7.

25. 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 27 September 2008, the trustees, Equiniti Share Plan Trustees Limited, held 1,092,375 (2007 740,210) shares in the Company. Of these shares, 103,995 (2007 nil) shares are unconditionally available to employees,319,020 (2007 419,918) shares have been conditionally awarded to employees, 648,440 (2007 306,304) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 20,920 (2007 13,988) shares are unallocated.

Employee Benefit Trust ('EBT')

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short-Term Deferred Incentive Plan, Sharesave Plan and the Rolled-over options. The EBT purchases shares in the market or subscribes for newly issued shares, from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 27 September 2008, the trustees, Mourant ECS Trustees (Jersey) Limited, were holding 14,995 (2007 330,239) shares in the Company.

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26. Reconciliation of movements in equity

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 29 September2007	34	14	828	3	(13)	20	7	683	1,576
Exchange differences	–	–	–	–	–	–	5	–	5
Purchase of own shares	–	–	–	–	(5)	–	–	–	(5)
Release of own shares	–	–	–	–	15	–	–	(12)	3
Credit in respect of share-based payments	–	–	–	–	–	–	–	4	4
Total recognised income and expense	–	–	(131)	–	–	(36)	–	(183)	(350)
Dividends	–	–	–	–	–	–	–	(58)	(58)
At 27 September 2008	34	14	697	3	(3)	(16)	12	434	1,175

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 30 September 2006 as restated[a]	34	14	–	3	(12)	(30)	6	1,194	1,209
Exchange differences	–	–	–	–	–	–	1	–	1
Purchase of own shares	–	–	–	–	(42)	–	–	–	(42)
Release of own shares	–	–	–	–	41	–	–	(30)	11
Credit in respect of share-based payments	–	–	–	–	–	–	–	8	8
Total recognised income and expense	–	–	828	–	–	50	–	49	927
Dividends	–	–	–	–	–	–	–	(538)	(538)
At 29 September 2007	34	14	828	3	(13)	20	7	683	1,576

[a] A prior year adjustment was recognised in the 2007 Annual report and accounts. See note 2 for further details.

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £228m at 27 September 2008 (2007 £307m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 20).

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

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

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

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

During the financial period, the Company acquired nil (2007 1,033,000) shares for treasury at a cost of £nil (2007 £7.4m), released 1,183,778 (2007 220,606) shares to employees on the exercise of share options for a total consideration of £1.7m (2007 £0.4m) and consolidated nil (2007 88,443) shares. The 58,191 shares held in treasury at 27 September 2008 had a market value of £0.1m (29 September 2007 1,241,969 shares held had a market value of £7.6m). The aggregate nominal value of the treasury shares held at 27 September 2008 was £5,000 (2007 £106,000).

During the financial period, the employee share trusts acquired 1,297,329 (2007 4,967,276) shares at a cost of £5.0m (2007 £35.0m), released 1,260,408 (2007 5,916,545) shares to employees on the exercise of options and other share awards for a total consideration of £1.6m (2007 £10.5m) and consolidated nil (2007 189,906) shares. The 1,107,370 shares held by the trusts at 27 September 2008 had a market value of £2.6m (29 September 2007 1,070,449 shares held had a market value of £6.5m). Further details regarding the employee share trusts are given in note 25.

Hedging reserve

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

Translation reserve

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

Goodwill

Goodwill eliminated against reserves at 27 September 2008 was £50m (2007 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

27. Cash flow from operations

	2008 52 weeks £m	2007 52 weeks £m
Operating profit	131	309
Add back: operating exceptional items	212	34
Operating profit before exceptional items	343	343
Add back:		
Depreciation of property, plant and equipment	129	122
Amortisation of intangibles (computer software)	4	6
Amortisation of lease premiums	1	1
Cost charged in respect of share remuneration	4	8
Defined benefit pension cost less regular cash contributions	(2)	3
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	479	483
Movements in working capital and pension contributions:		
(Increase)/decrease in inventories	(1)	4
(Increase)/decrease in trade and other receivables	(7)	3
Increase in trade and other payables	39	3
Movement in provisions	–	(2)
Additional pension contributions (note 8)	(24)	(40)
Cash flow from operations before exceptional items	486	451
Integration costs paid	–	(4)
Strategic review costs	(12)	–
Cash flow from operations	474	447

28. Analysis of net debt

	2008 £m	2007 £m
Cash and cash equivalents (see below)	129	117
Cash deposits with a maturity of greater than three months	2	–
Securitised debt (note 20)	(2,339)	(2,356)
Other borrowings (note 20)	(504)	(192)
Derivatives hedging balance sheet debt[a] (note 21)	(22)	(45)
Loan notes (note 20)	–	(2)
Finance leases (note 20)	(1)	(1)
	(2,735)	(2,479)

[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 21). 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 (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and in hand of £79m (2007 £80m) plus cash deposits with an original maturity of three months or less of £50m (2007 £37m).

Cash deposits with a maturity of greater than three months represent monies held in escrow.

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29. Movement in net debt

	2008 52 weeks £m	2007 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	12	(258)
Add back cash flows in respect of other components of net debt:		
Transfers to cash deposits with a maturity of greater than three months	2	–
Repayment of principal in respect of other loans	2	–
Repayment of principal in respect of securitised debt	41	39
Proceeds of issue of other borrowings	(322)	(192)
Increase in net debt arising from cash flows ('Net cash flow' per note 30)	(265)	(411)
Non-cash movements	9	(1)
Increase in net debt	(256)	(412)
Opening net debt	(2,479)	(2,067)
Closing net debt	(2,735)	(2,479)

30. Net cash flow

	2008 52 weeks £m	2007 52 weeks £m
Operating profit before exceptional items	343	343
Depreciation and amortisation	134	129
EBITDA before exceptional items[a]	477	472
Working capital movement	31	8
Other non-cash items	2	11
Additional pension contributions (note 8)	(24)	(40)
Cash flow from operations before exceptional items	486	451
Net capital expenditure[b]	(111)	(99)
Cash flow from operations before exceptional items and after net capital expenditure	375	352
Integration costs paid	–	(4)
Strategic review costs	(12)	–
Cash flow from operations after net capital expenditure	363	348
Interest paid	(171)	(151)
Interest received	7	6
Tax paid	(4)	(33)
Dividends paid	(58)	(538)
Purchase of own shares	(5)	(46)
Proceeds on release of own shares held	3	11
Expenditure associated with refinancing	(11)	(4)
Derivative financial instruments closure costs	(386)	–
Corporate restructuring costs	(3)	(4)
Net cash flow (note 29)	(265)	(411)

[a] Earnings before interest, tax, depreciation, amortisation and exceptional items
[b] Comprises purchases of property, plant and equipment and intangibles less proceeds from the sale of property, plant and equipment

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31. 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.

Operating lease commitments – Group as lessee

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

	2008 £m	2007 £m
Due within one year	42	48
Between two and five years	153	158
After five years	557	556
	752	762

The future minimum rentals expected to be received under non-cancellable subleases as at 27 September 2008 amounted to £21m (2007 £25m).

Operating lease receivables – Group as lessor

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

	2008 £m	2007 £m
Due within one year	7	7
Between two and five years	23	23
After five years	26	31
	56	61

Lease income recognised in the year was as follows:

	2008 52 weeks £m	2007 52 weeks £m
Standard lease income	10	9

Finance lease commitments – Group as lessee

Total future minimum lease payments due under finance leases are as follows:

	2008 £m	2007 £m
Due within one year	–	–
Between two and five years	1	1
	1	1

Due to the timing of the expiry of the finance lease commitments, there is no material difference between the total future minimum lease payments and their present value.

Finance leases relate to various items of fixtures, fittings and equipment (see note 15).

Capital commitments

	2008 £m	2007 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	19	26

Notes to the financial statements
For the 52 weeks ended 27 September 2008
continued

32. Contingent liabilities
The Group has given indemnities in respect of the disposal of certain companies previously within the Six Continents group. It is the view of the Directors that such indemnities are not expected to result in financial loss to the Group.

33. Related party disclosures
There are no transactions with related parties requiring disclosure under IAS 24 'Related Party Disclosures' during either the current year or the previous year. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Between 20 June 2008 and 8 October 2008 Aaron Brown and Tim Smalley were members of the Board of Directors of Mitchells & Butlers plc. Both are connected to Violet Capital Limited, which was a related party of Mitchells & Butlers plc during the same period. Prior to their appointment to the Board of Directors of Mitchells & Butlers plc, but during the financial period, the Group acquired the Maybury Inn, Woking, from a company owned by the Globe Group, a connected party of Violet Capital Limited, on arms-length terms. No transactions took place between the Group and the two Directors or their connected parties during their period as Directors of Mitchells & Butlers plc, other than fees for their services as Directors of the Company.

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 Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	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 Ltd	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:

	2008 £m	2007 £m
Short-term employee benefits	3	4
Post-employment benefits	2	2
Share-based payments	1	4
	6	10

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

Five year review
Income statement information

	IFRS				UK GAAP
	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m	2005 restated[a] £m	Pro forma 2004 restated[a] £m
Revenue					
Pubs & Bars	954	968	958	939	913
Restaurants	939	908	762	684	641
Retail	1,893	1,876	1,720	1,623	1,554
SCPD	15	18	–	8	6
	1,908	1,894	1,720	1,631	1,560
Operating profit before exceptional items					
Pubs & Bars	176	191	179	175	173
Restaurants	156	145	130	113	99
Retail	332	336	309	288	272
SCPD	11	7	–	1	1
	343	343	309	289	273
Operating exceptional items	(212)	(34)	16	(3)	–
Total operating profit	131	309	325	286	273
Non-operating exceptional items	–	–	–	–	–
Profit before interest	131	309	325	286	273
Interest on net debt	(167)	(147)	(109)	(103)	(101)
Exceptional interest charge	(205)	(221)	(4)	–	(2)
Net finance income on pensions	3	11	8	3	1
(Loss)/profit before taxation	(238)	(48)	220	186	171
Taxation credit/(charge)	62	38	(25)	(59)	(53)
(Loss)/profit for the financial year	(176)	(10)	195	127	118
(Loss)/earnings per share					
Basic	(43.7)p	(2.5)p	39.7p	24.9p	21.1p
Diluted	(43.7)p	(2.5)p	38.8p	24.5p	21.0p
Adjusted/pro forma	31.5p	35.5p	29.3p	25.4p	20.9p
Adjusted/pro forma as reported in year	–	–	–	–	22.2p
Dividends paid and proposed[b]					
Normal dividends (£m)	18	57	53	54	49
Special dividends (£m)	–	486	–	–	501
Normal dividends per share	4.55p	14.25p	12.25p	10.75p	9.50p

[a] Restated on the full adoption of FRS 17 'Retirement Benefits'
[b] Dividend information for all years represents interim and final dividends for the year presented

Results for 2005 are presented on a 52 week basis to aid comparability with previous years. The 53 week 2005 results under both IFRS and UK GAAP are available in full from the Company's website, www.mbplc.com/IFRS. The 2005 results on a 52 week basis are unaudited.

Adjusted earnings per share is stated after removing the impact of exceptional items and IAS 39 movements, less tax thereon.

The adjustments required to make UK GAAP historic information consistent with that presented under IFRS relate to share-based payment charges and the different calculation basis of deferred tax under IFRS.

Five year review
Balance sheet information

	IFRS				UK GAAP
	2008 £m	2007 £m	2006 restated[b] £m	2005 restated[b] £m	2004 restated[a] £m
Goodwill and other intangible assets	3	17	22	26	10
Property, plant and equipment	4,545	5,030	3,867	3,447	3,509
Lease premiums	10	11	13	16	–
Total non-current assets	4,558	5,058	3,902	3,489	3,519
Inventories	39	38	42	39	43
Operating receivables	79	68	80	77	82
Non-current assets held for sale	114	6	88	9	–
Operating payables	(276)	(240)	(243)	(220)	(197)
Net current operating liabilities	(44)	(128)	(33)	(95)	(72)
Total operating assets less current operating liabilities	4,514	4,930	3,869	3,394	3,447
Provisions	(1)	(1)	(3)	(4)	(2)
Net operating assets	4,513	4,929	3,866	3,390	3,445
External net debt	(2,735)	(2,479)	(2,067)	(1,625)	(1,632)
Derivative financial instruments	(58)	(188)	(36)	(35)	–
Corporate taxation	3	(18)	(22)	(60)	(59)
Deferred taxation	(526)	(648)	(426)	(435)	(182)
Pension liabilities	(23)	(18)	(99)	(151)	(114)
Proposed dividend	–	–	–	–	(34)
Balances relating to exceptional items	–	–	(3)	–	(1)
Non-operating receivables/(payables)	1	(2)	(4)	–	–
Net assets	1,175	1,576	1,209	1,084	1,423

a Restated on the full adoption of FRS 17 'Retirement Benefits'
b Restated in respect of a prior year adjustment (see note 2 to the financial statements)

Five year review
Cash flow information

	IFRS				UK GAAP
	2008 £m	2007 £m	2006 £m	2005 restated[a] £m	Pro forma 2004 restated[a] £m
Operating profit before exceptional items	343	343	309	295	273
Depreciation and amortisation	134	129	121	116	108
EBITDA[b]	477	472	430	411	381
Other non-cash items	2	11	11	7	14
Working capital movement	31	8	9	16	28
Additional pension contributions	(24)	(40)	(20)	(30)	(40)
Net cash flow from operations[b]	486	451	430	404	383
Net capital expenditure	(111)	(99)	(583)	(110)	(99)
Operating cash flow after capital expenditure[b]	375	352	(153)	294	284
Net interest paid	(164)	(145)	(107)	(102)	(98)
Tax paid	(4)	(33)	(48)	(43)	(34)
Normal dividends paid	(58)	(52)	(56)	(50)	(44)
Special dividends paid	–	(486)	–	–	(501)
Issue of ordinary shares	–	–	–	2	8
Purchase of own shares	(5)	(46)	(76)	(101)	(12)
Proceeds on release of own shares held	3	11	12	14	1
Operating exceptional expenditure		–	–	(4)	(5)
Expenditure associated with refinancing	(11)	(4)	(10)	–	(22)
Derivative financial instruments closure costs	(386)	–	–	–	–
Defence costs	–	–	(4)	–	–
Corporate restructuring costs (note 9)	(3)	(4)	–	–	–
Integration costs paid (note 9)	–	(4)	–	–	–
Strategic review costs (note 9)	(12)	–	–	–	–
Net cash flow	(265)	(411)	(442)	10	(423)

a Restated on the full adoption of FRS 17 'Retirement Benefits'
b Before exceptional items

All years are for 52 week periods with the exception of 2005 which is a 53 week period.

Mitchells & Butlers plc – parent company balance sheet
27 September 2008

	Notes	2008 £m	2007 £m
Fixed assets			
Investments	6	1,718	1,739
Current assets			
Debtors	7	204	676
Derivative financial instruments	10	–	73
Investments		1	2
Cash at bank and in hand		3	27
		208	778
Creditors: amounts falling due within one year	8	(339)	(2,022)
Derivative financial instruments	10	–	(82)
Net current liabilities		(131)	(1,326)
Creditors: amounts falling due in more than one year	9	(886)	–
Net assets before net pension liabilites		701	413
Net pension liabilities	2	(17)	(13)
Net assets		684	400
Capital and reserves			
Called up share capital	11, 12	34	34
Share premium account	12	14	14
Capital redemption reserve	12	3	3
Profit and loss account reserve	12	633	349
Equity shareholders' fund		684	400

Signed on behalf of the Board

J Townsend
Director
25 November 2008

T Clarke
Director
25 November 2008

The accounting policies and the notes on pages 104 to 110 form an integral part of these financial statements.

Independent auditors' report to the members of Mitchells & Butlers plc

We have audited the parent company financial statements of Mitchells & Butlers plc for the year ended 27 September 2008 which comprise of the Balance sheet and the related notes 1 to 15. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Mitchells & Butlers plc for the year ended 27 September 2008.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual report, the Remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Directors' responsibility statement.

Our responsibility is to audit the parent company financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' report, the unaudited part of the Remuneration report, the Chairman's statement and the Operating and financial review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Remuneration report to be audited.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 27 September 2008;
- the parent company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
London
25 November 2008

Note: The maintenance and integrity of the Mitchells & Butlers plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified for derivative financial instruments which are held on the balance sheet at fair value (see 'Derivative financial instruments' below). They comply with applicable accounting standards in the United Kingdom.

Fixed asset investments

The Company's investments in group undertakings are held at cost less provision for impairment.

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. Those timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas companies in the absence of any commitment by the Company to make the distribution.

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.

Employee benefits

i Pension obligations

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

The liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets, shown net of deferred tax. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. The current service cost of providing pension benefits to employees, together with the cost of any benefits relating to past service, is charged to operating profit and included in staff costs. The interest cost and the expected return on assets are shown as a net amount of finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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

ii 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 a combination of Black-Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme. The Company has taken advantage of the transitional provisions of FRS 20 in respect of equity-settled awards so as to apply FRS 20 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

Own shares

The cost of own shares held in treasury ('treasury shares') or by the Company's employee share trusts for the purpose of fulfilling obligations in respect of the Group's employee share plans are deducted from shareholders' funds in the Company and Group balance sheet. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost taken to revenue reserves except where the proceeds exceed the consideration paid, where the excess is transferred to the share premium account. No gain or loss is recognised on the purchase, sale, issue or cancellation of equity shares.

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.

Foreign currencies

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

This applies to the euro loan from Mitchells & Butlers Germany GmbH, which is a monetary item, converted at the period end rate with exchange differences arising passing through the profit and loss account and the euro investment in Mitchells & Butlers Germany GmbH, which is a non-monetary item and therefore should be held at cost.

However, the Company applies fair value hedge accounting, in accordance with FRS 26, in order to hedge the long-term element of the euro loan from Mitchells & Butlers Germany GmbH against part of the 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.

Derivative financial instruments
The Company used interest rate swaps and gilt hedges during the period to mitigate the anticipated exposure to changes in interest rates and movements in the value of the Group's fixed rate debt. Derivative financial instruments are not used for trading or speculative purposes.

Interest rate swap contracts are initially measured at fair value on the contract date, and are remeasured 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 these instruments are recognised in the profit and loss account in the period in which the changes arise.

Profit and loss account
The Company has taken advantage of Section 230 of the Companies Act 1985 and not presented its own profit and loss account. The Company recorded a profit after tax of £365m (2007 £50m), less dividends of £58m (2007 £538m).

Auditors' remuneration for audit services to the Company was £22,000 (2007 £21,000). This is borne by another Group company as are any other costs relating to non-audit services (see note 5 to the Group financial statements).

The consolidated financial statements of Mitchells & Butlers plc are required to comply with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

Use of estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results can differ from those estimates. Estimates are used when accounting for items such as amortisation, asset impairments and pensions.

Exchange rates
The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.31 (2007 £1 = €1.48) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.26 (2007 £1 = €1.43).

2. Pensions
The Company accounts for pensions under FRS 17 'Retirement Benefits'.

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 page 78 to the consolidated financial statements.

Pension costs are assessed in accordance with the advice of the Schemes' qualified actuaries. The Company's total pension cost included within operating profit for the 52 weeks ended 27 September 2008 under FRS 17 was £15m (2007 £14m), comprising £13m (2007 £13m) in respect of the defined benefit pension arrangements and £2m (2007 £1m) in respect of the defined contribution arrangements.

The valuations used for FRS 17 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2007 updated by the independent qualified actuaries to 27 September 2008. Scheme assets are stated at market value at 27 September 2008 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal financial assumptions used by the actuaries at the balance sheet date and the basis of these are contained within note 8 page 78 to the consolidated financial statements.

The long-term rates of return on assets at 27 September 2008 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2008 financial year. The 2007 rates shown are used in calculating the 2008 expected return.

	2008 Long-term rates of return expected %	Value £m	2007 Long-term rates of return expected %	Value £m	2006 Long-term rates of return expected %	Value £m
Equities	8.2	359	7.9	345	7.5	598
Bonds	5.3	814	5.9	854	4.6	488
Property	8.2	38	7.9	93	7.5	99
Fair value of assets		1,211		1,292		1,185
Present value of scheme liabilities		(1,234)		(1,310)		(1,281)
Deficit in the schemes recognised as a liability in the balance sheet		(23)		(18)		(96)
Associated deferred tax asset		6		5		31
Net pension liabilities		(17)		(13)		(65)

Notes to the parent company financial statements
continued

2. Pensions continued

Statement of total recognised gains and losses	2008 £m	2007 £m
Actual return less expected return on pension scheme assets	(150)	24
Changes in assumptions underlying the valuation of the scheme assets and present value of the scheme liabilities	115	6
Actuarial (loss)/gain recognised	(35)	30

History of experience gains and losses:	2008	2007	2006	2005	2004
Difference between the expected and actual return on scheme assets					
Amount (£m)	(150)	24	43	100	27
Percentage of scheme assets	(12)%	2%	4%	9%	3%
Experience gains and losses on scheme liabilities					
Amount (£m)	–	–	–	–	20
Percentage of the present value of the scheme liabilities	–	–	–	–	2%
Total amount recognised in the statement of recognised gains and losses					
Amount (£m)	(35)	30	27	(7)	39
Percentage of the present value of the scheme liabilities	(3)%	2%	2%	(1)%	4%

The following amounts relating to the Company's defined benefit arrangements have been recognised in the Company profit and loss account and Statement of total recognised Company gains and losses:

Profit and loss account	2008 52 weeks £m	2007 52 weeks £m
Operating profit:		
Current service cost	(13)	(13)
Charge to operating profit	(13)	(13)
Interest:		
Expected return on pension scheme assets	79	74
Interest on pension scheme liabilities	(76)	(63)
Net finance income in respect of pensions	3	11
Net pension cost before taxation	(10)	(2)

The table below analyses the movement in the schemes' net deficit in the period:

	Pension assets		Pension obligations		Net deficit	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
At beginning of period	1,292	1,185	(1,310)	(1,281)	(18)	(96)
Current service cost	–	–	(13)	(13)	(13)	(13)
Interest cost on benefit obligations	–	–	(76)	(63)	(76)	(63)
Expected return on plan assets	79	74	–	–	79	74
Employee contributions	3	4	(3)	(4)	–	–
Employer contributions	40	50	–	–	40	50
Benefits paid	(53)	(42)	53	42	–	–
Actuarial (loss)/gain recognised	(150)	21	115	9	(35)	30
At end of period	1,211	1,292	(1,234)	(1,310)	(23)	(18)

3. Employees and Directors

	2008 52 weeks Number	2007 52 weeks Number
Average number of employees, including part-time employees	9	9

4. Share-based payments

The expense recognised for share-based payments in the year is £1m (2007 £4m) which comprises share option schemes and share awards to the employees of the Company.

The Company had six share-based payment schemes, all of which are equity-settled, in operation during the year. These are described on pages 75 and 76.

The tables on page 76 set out awards and options granted by the Company during 2008 and 2007. The Group has used separate option pricing models and assumptions for each plan. Details of how the fair value of each option was calculated are also included on pages 75 and 76.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 27 September 2008 and 29 September 2007 in relation to the employees of the Mitchells & Butlers Group are shown on page 77.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 27 September 2008 and 29 September 2007 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 1 October 2006	751	2,826	22
Granted	247	652	2
Exercised	(253)	(713)	–
Lapsed	–	(295)	–
Share consolidation[a]	–	–	(4)
Outstanding at 29 September 2007	745	2,470	20
Transfers in from other group companies	–	404	–
Granted	–	1,918	8
Exercised	(173)	(628)	–
Lapsed	–	(409)	(6)
Outstanding at 27 September 2008	572	3,755	22
Fair value of options granted during the period (pence)			
At 27 September 2008	–[b]	107.5[c]	205.0
At 29 September 2007	721.5	477.6[c]	879.5
Weighted average remaining contract life (years)			
At 27 September 2008	0.6	3.4	–[d]
At 29 September 2007	1.3	3.1	–[d]

a The allocated shares in the SIP Trust were consolidated as part of the share consolidation on 18 October 2006, resulting in a reduction of 3,775
b There was no grant under the Short-Term Deferred Incentive Plan during the year as the Executive Directors' bonuses were forgone due to the hedge closure
c For the Performance Restricted Share Plan the weighted average fair value is shown
d SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group

	Executive Share Option Plan		Sharesave Plan		Rolled-over options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 1 October 2006	4,680	263.0	44	187.3	1,805	277.6
Granted	–	–	–	–	–	–
Exercised	(1,050)	219.0	(16)	169.0	(922)	280.3
Lapsed	–	–	–	–	–	–
Options outstanding at 29 September 2007	3,630	275.7	28	198.0	883	274.8
Transfers in from other group companies	203	327.9	–	–	–	–
Granted	–	–	11	259.0	–	–
Exercised	(396)	244.5	(7)	209.0	(21)	364.5
Lapsed	(74)	326.1	–	–	(67)	364.5
Options outstanding at 27 September 2008	3,363	281.4	32	217.0	795	264.9
Options exercisable						
At 27 September 2008	3,363	281.4	–	–	795	264.9
At 29 September 2007	2,249	244.7	–	–	883	274.8
Fair value of options granted during the period (pence)						
At 27 September 2008	–		0.5		–	
At 29 September 2007	–		–		–	
Range of option prices (pence)						
At 27 September 2008		219.0 – 330.5		169.0 – 401.0		242.1 – 303.0
At 29 September 2007		219.0 – 326.1		169.0 – 401.0		259.7 – 364.5

The weighted average share price during the period was 387.9p (2007 737.4p).

Notes to the parent company financial statements
continued

4. Share-based payments continued

Summarised information about options over the Company's shares outstanding at 27 September 2008 under the share option schemes, in respect of the employees of the Mitchells & Butlers group, is shown on page 78.

Summarised information about options outstanding, in respect of the employees of the Company, at 27 September 2008 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[a]	3,755	3.4	–[a]	–	–	–[a]
Executive Share Option Plan						
219.0	426	4.7	219.0	426	4.7	219.0
252.5	1,427	5.7	252.5	1,427	5.7	252.5
326.1	1,427	6.7	326.1	1,427	6.7	326.1
330.5	83	6.7	330.5	83	6.7	330.5
	3,363	6.0	281.4	3,363	6.0	281.4
Sharesave Plan						
169.0	19	0.5	169.0	–	–	–
401.0	2	1.5	401.0	–	–	–
259.0	11	4.6	259.0	–	–	–
	32	2.0	217.0	–	–	–
Rolled-over options						
242.1p to 303.0p	795	2.2	264.9	795	2.2	264.9

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

5. Dividends

Dividends paid and recognised in equity by the Company in the period are disclosed within note 12 page 82 to the consolidated financial statements.

6. Fixed asset investments

	Shares in group undertakings £m
Cost	
At 29 September 2007	1,745
Exchange differences	3
Cost of shares of companies acquired in period[a]	2,107
Cost of shares of companies sold in period[a]	(1,677)
At 27 September 2008	2,178
Provision	
At 29 September 2007	6
Provided during year	454
At 27 September 2008	460
Net book value	
At 27 September 2008	1,718
At 29 September 2007	1,739

a Cost of shares of companies acquired in the period and cost of shares of companies sold in the period include £1,677m in respect of a share for share exchange by the Company of certain wholly owned subsidiaries for shares in a new wholly owned holding company

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 Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	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 Ltd	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.

7. Debtors

	2008 £m	2007 £m
Amounts owed by group undertakings	150	625
Group relief receivable	47	50
Prepayments	–	1
Deferred tax asset	7	–
	204	676

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

8. Creditors: amounts falling due within one year

	2008 £m	2007 £m
Borrowings	–	192
Amounts owed to group undertakings	338	1,808
Deferred tax	–	18
Other creditors	1	1
Accruals	–	3
	339	2,022

Borrowings in 2007 comprise £192m drawn down against the three year £300m revolving credit facility repaid in July 2008.

9. Creditors: amounts falling due in more than one year

	2008 £m	2007 £m
Amounts owed to group undertakings	886	–

10. Derivative financial instruments

In advance of the intended property backed refinancing, a number of derivative instruments were executed by or transferred to the Company, to mitigate against anticipated movements in the value of the Group's fixed rate debt. These are explained further in note 21 page 90 to the consolidated financial statements.

These instruments did not qualify for hedge accounting within the Company as they could not be designated as a hedge against the cash flows of any specific financial instrument anticipated as part of a future property backed refinancing.

On 29 January 2008, the Group announced that following the deterioration in the mark-to-market deficit on the hedges and with no near term prospect of debt markets permitting a property-based transaction, it had closed out in cash the hedges no longer required, which included all of the derivative instruments held by the Company. The total fair value movement of the instruments closed out, during the period to January 2008 when they were settled was a £3m gain (2007 £9m loss). This movement was recognised directly in the Company's profit and loss account. The pre-tax cost to the Company of closing out the hedges no longer required was £6m in total.

Notes to the parent company financial statements
continued

11. Called up share capital
Details of the amount and nominal value of authorised and called up, allotted and fully paid share capital are contained in note 24 page 93 to the consolidated financial statements.

12. Share 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	Total share capital and reserves £m
At 29 September 2007	34	14	3	(13)	362	349	400
Purchase of own shares	–	–	–	(5)	–	(5)	(5)
Release of own shares held	–	–	–	15	(12)	3	3
Credit in respect of employee share schemes	–	–	–	–	4	4	4
Actuarial loss on pension schemes	–	–	–	–	(35)	(35)	(35)
Deferred tax relating to actuarial loss	–	–	–	–	10	10	10
Profit after taxation	–	–	–	–	365	365	365
Dividends	–	–	–	–	(58)	(58)	(58)
At 27 September 2008	34	14	3	(3)	636	633	684

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

Included in the profit and loss account reserve is a pension reserve of £17m (2007 £13m) which equates to the net pension liabilities under FRS 17.

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

Details of Own shares held by the Group and Company are contained in note 26 page 94 to the consolidated financial statements.

13. Deferred tax asset/(liability)

	£m
At 29 September 2007	(13)
Profit and loss account	16
Profit and loss account reserves	10
At 27 September 2008	13

Analysed as tax on timing differences related to:

	2008 £m	2007 £m
Derivative financial instruments	–	(21)
Share-based payments	2	3
Pensions	6	5
Non-trade deficits	5	–
Deferred tax asset/(liability)	13	(13)

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

14. Related party transactions
The Company is not required to provide related party disclosures in its own financial statements, as they are presented with the consolidated financial statements of the Group under FRS 8 'Related Party Disclosures'.

15. Contingent liabilities
The Company is a guarantor of the obligations of Mitchells & Butlers Retail Property Limited under three long-term interest rate swaps, with an initial notional amount totalling £225m. The Company is also a guarantor of the obligations of Mitchells & Butlers Retail (No 2) Ltd in respect of the £600m term and revolving loan facility dated 24 July 2008 with final maturity of 30 November 2011.

Shareholder information

Electronic communication

At the 2008 AGM shareholders agreed to change the Company's Articles of Association to allow the Company to use its website as its main method of communication. Communication election cards were sent to shareholders with the interim dividend payment mailing in July 2008. Shareholders who did not respond to the mailing will receive a hard copy notification when shareholder documents, including the Company's 2008 Annual Report, are available on the Company's website www.mbplc.com

If you would prefer to receive an email notifying you of the publication, please register at www.shareview.co.uk or contact the Registrar at the address overleaf. The Shareview website also enables shareholders to view details of their own shareholding or electronically appoint a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting. If you would like to receive a hard copy of the 2008 Annual Report please contact the Registrar at the address overleaf.

Interim results

The Company no longer publishes interim results in hard copy. The interim results are available online at www.mbplc.com/reports

Amalgamating your share accounts

If you received more than one copy of this report, it may be because the Registrar has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future, you can have all your shares amalgamated into one account by contacting the Registrar at the address overleaf.

Dividend mandates

Shareholders who wish dividends to be paid directly into a bank/building society account may contact the Registrar for a dividend mandate form or register at www.shareview.co.uk. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures that your account is credited on the due date.

Dividend reinvestment plan ('DRIP')

Shareholders can choose to reinvest dividends received to purchase further shares in the Company through a DRIP. A DRIP application form is available from the Registrar or at the following web link www.mbplc.com/dividends

Low-cost share dealing service

A simple, low cost postal facility for buying and selling ordinary shares in Mitchells & Butlers plc is available through the Company's Registrar. Information may be obtained from the Registrar at the address overleaf or at the following web link www.shareview.co.uk/dealing

Individual savings accounts ('ISAs')

ISAs in Mitchells & Butlers plc ordinary shares are available through the Registrar, further information may be obtained from the Registrar's address overleaf or at the following web link www.shareview.co.uk/isa

Share price information

The latest Mitchells & Butlers plc share price is available at the following web link www.mbplc.com/shareprice, in the financial press or on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone +44 (0)9058 171690 (calls charged at 75p per minute from a BT landline).

ShareGift

The Orr Mackintosh Foundation operates this charity share donation scheme for shareholders with small holdings of shares, whose value makes them uneconomic to sell. Details can be obtained from the Registrar or the ShareGift website www.ShareGift.org or by calling ShareGift on +44 (0)20 7930 3737.

Corporate Social Responsibility Review

The Mitchells & Butlers Corporate Social Responsibility Review 2008 is available on the Company's website and can be downloaded directly by visiting www.mbplc.com/csrreview If you do not have access to the internet and would like a printed copy, please write to the Communications Department at the Company's registered office shown overleaf.

Shareholder information
continued

Contacts
Registered office
27 Fleet Street
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Spencer Road
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West Sussex BN99 6DA
Telephone 0871 384 2065* (from the UK)
Telephone +44 (0)121 415 7088
(for non-UK callers)
Fax +44 (0)871 384 2100*

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

* Calls to these numbers are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary.

Stockbrokers
JPMorgan Cazenove Limited
Merrill Lynch International

Auditor
Ernst & Young LLP

Investment bankers
Citigroup

Solicitors
Allen & Overy LLP

Key dates

2008 preliminary results announcement	26 November 2008
Annual General Meeting	29 January 2009
Interim management statement	29 January 2009
Announcement of interim results	May 2009
Interim management statement	July 2009
Pre-close trading update	September 2009
Announcement of 2009 preliminary results	Nov/Dec 2009

Glossary

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

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

Brands/Formats
The Brand or format reflects the type of consumer offer in a pub. There is a spectrum of branding in our pubs from:
- outlets where to the customer's eye the business trades without any overt branding or badging but the customer offer and operating template are managed to defined standards (e.g. our Classic pubs) to
- those that trade to a consistent design, drinks range, menu, service style and promotional programme either under their own individual names but as part of an externally recognised group (e.g. Ember Inns) or
- under a common name with more overt consistent branding (e.g. All Bar One).

Cash flow from operations
The cash generated from the operations of the Company generally defined as revenues less all operating expenses.

CAGR
Compound Annual Growth Rate.

Covers
The number of main meals sold.

Cover turn
The total number of main meals sold divided by the number of main meals that could be sold in one sitting.

EBITDA
Earnings before interest, tax, depreciation, amortisation and exceptional items.

External costs
Costs influenced by outside factors, i.g. regulatory and energy costs.

Gross margin
Gross profit divided by sales, expressed as a percentage.

Gross profit
Sales less cost of goods sold.

HMRC
Her Majesty's Revenue and Customs.

Incremental pre-tax returns
Growth in annual pre-tax operating profit expressed as a percentage of the associated capital investment. For sites which do not have 12 months post-investment trading, incremental return is estimated based on an annualisation of actual post-investment trading.

IFRS
International Financial Reporting Standards.

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

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

ONS
Office for National Statistics.

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.

Original Acquired Sites
239 Pub Restaurant sites acquired from Whitbread PLC in July 2006.

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

Productivity
Sales less hourly paid wages divided by the number of hours worked.

Refinancing
The repayment of an existing loan with the proceeds from a new loan.

REIT
Real Estate Investment Trust.

Same outlet like-for-like sales growth
The increase in sales performance of all managed pubs that were trading for the two periods being compared, expressed as a percentage.

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

Uninvested like-for-like sales growth
The increase in sales performance of those managed pubs that have not received expansionary investment of more than £30,000 in either period being compared, expressed as a percentage.

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Mitchells & Butlers online

Visit our websites for the latest updates

Mitchells & Butlers' comprehensive website gives you fast, direct access to a wide range of information about the Company, including the latest Annual report, investor news and press releases, brand information and links through to the brand websites, and our policy on responsible retailing. You can also quickly find your nearest Mitchells & Butlers pub, wherever you are in the country.

www.mbplc.com/ecomms

Annual report
www.mbplc.com/AR08

News releases
www.mbplc.com/news

CSR
www.mbplc.com/CSR

Find a pub
www.find-a-pub.com

Our brands

Many of our popular brands now have their own websites, helping our customers to find the information they need straight away. The latest menus, the most up-to-date news and the best food and drink offers are all available, plus the details of any new openings.

Harvester
www.harvester.co.uk

Toby Carvery
www.toby-carvery.co.uk

Vintage Inns
www.vintageinn.co.uk

Crown Carvery
www.crowncarveries.co.uk

Ember Inns
www.emberinns.co.uk

Premium Country Dining
We operate many individual pubs and Pub Restaurants, offering customers a great choice of food and drink. Our Premium Country Dining pubs are often beautiful, historic buildings where the modern, tasteful décor, the fresh, contemporary menu and well-chosen beers and wines combine to offer customers the best in high quality casual dining. Each pub has its own website, for example www.thetroutoxford.co.uk

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