



Overview

2009

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Percentage of sales by region FY 2009



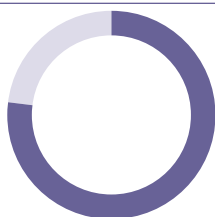
1	23%	South East
2	18%	London
3	15%	West Midlands
4	10%	North West
5	9%	Yorkshire and Humberside
6	6%	South West
7	5%	East Midlands
8	5%	Scotland
9	4%	Wales
10	4%	Northern
11	1%	East Anglia

Mitchells & Butlers has produced a robust operational performance in challenging conditions. The Company has sold 129 million meals in the year and grown average food sales per pub by 9%. Supported by a recent small upturn in consumer confidence, the first eight weeks of the new financial year have started well. The strength of the Group's brands, locations, operational skills and cost management mean that we are well positioned for the year ahead.

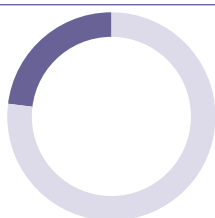


Brands and operating formats

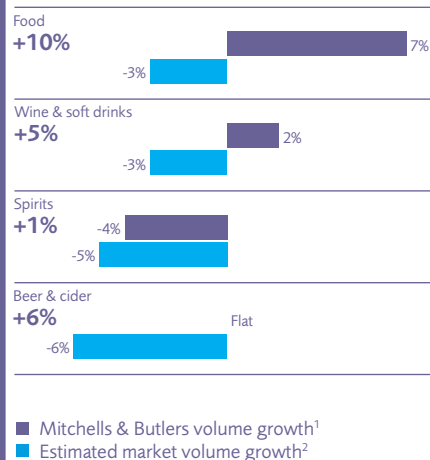
77%
Residential pubs account for 77% of managed sales



23%
High Street pubs account for 23% of managed sales



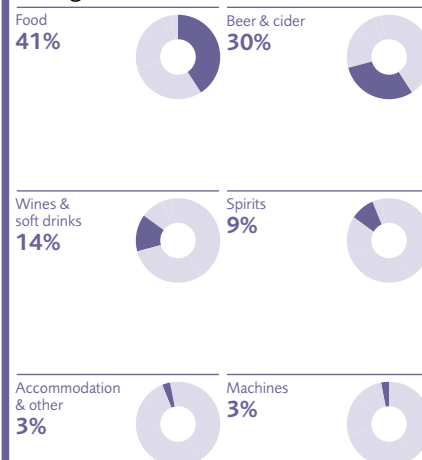
Profitable market outperformance



¹ Same outlet like-for-like growth

² Mitchells & Butlers estimates based on BBPA/AC Nielsen/ONS

Changing sales mix Managed sales mix FY 2009



Residential

Capturing growth in the residential casual dining market

Number of pubs: 1,385



Crown Carveries

Top quality carvery meals at great prices within a friendly local pub serving good value drinks



Ember Inns

Relaxing local pubs providing customers with a great range of cask ale, wines and quality pub food



Harvester

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



Metro Professionals

Highly individual pubs which attract an eclectic, urban crowd and offer an innovative choice of drinks, plus food menus which often use the best local ingredients



Miller & Carter

A stylish, informal premium steak house specialising in steaks which are exclusively reared and sourced for Miller & Carter in the West Country



Premium Country Dining Group

Modern country pub restaurants with great bars designed to offer guests high quality fresh food and drink in a sophisticated environment



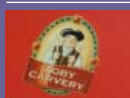
Scream

Aimed at students and the like-minded, famous for its range of burgers and excellent lager and cider selection, Scream is often the best place in town to watch major sporting events



Sizzling Pub Co.

Friendly, comfortable local pubs offering regulars and families superb value sizzling dishes and a great choice of drinks



Toby Carvery

Welcoming, accessible traditional pub restaurants with carvery experts creating Sunday every day for all guests, whatever the occasion



Vintage Inns

Traditional country inns with real character and cosy interiors providing a warm, relaxed atmosphere, excellent wines, cask-conditioned ales and good food

High Street

Strong brands in a competitive market

Number of pubs: 429



All Bar One

Stylish, cosmopolitan bars for those who appreciate quality food and drink served in a lively, spacious environment, with an emphasis on fast and efficient service



Browns

Elegant brasserie bars and restaurants, often in landmark buildings, offering a fusion of British and European classic dishes in tasteful surroundings



Nicholson's and Classic Pubs

Some of the best loved classic pubs, each boasting a unique history and rich heritage. Primarily located in London, these beautiful historic pubs offer traditional pub food and a wide selection of cask ales and lagers



O'Neill's

Traditional Irish pubs offering hearty pub food with a distinct Irish flavour and the best Guinness in town



Town pubs

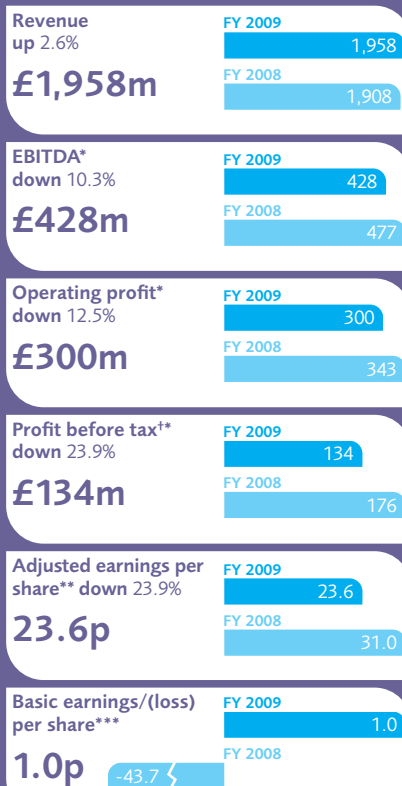
Conveniently located city centre pubs offering great value food and drink, perfect for a morning coffee, a lunchtime get-together or after-work drinks with friends

Note: Pub numbers exclude Hollywood Bowl (24 outlets) and Alex (43 outlets)

Chairman's statement

As at 25 November 2009

Financial performance 2009



The Annual report and accounts were approved by the Board on 25 November 2009 under the Chairmanship of Drummond Hall. Simon Laffin became Chairman of the Board on 30 November 2009, he has written separately to shareholders to advise them of changes in events since 25 November 2009.

† After exceptional items and other adjustments, the loss before tax was £(10)m (FY 2008 £(238)m)

* EBITDA, operating profit and profit before tax are all stated before exceptional items and other adjustments

** Adjusted earnings per share is stated as profit after tax before exceptional items and other adjustments, divided by the weighted average number of ordinary shares in issue

*** Basic earnings/(loss) per share is stated after deducting exceptional items and other adjustments after tax of £(92)m (FY 2008 £(301)m)

Drummond Hall
Chairman
(until 30 November 2009)



2009 has been a difficult year for the pub sector, reflecting the general recessionary economic environment with the resultant pressure on consumers' discretionary incomes. The eating-out market has been slowing although we believe the long-term trend will continue to be positive. In the face of these difficult trading conditions and exceptional cost pressures your Company has performed reasonably well.

Revenues for the year were up 2.6%, however operating profit was down 12.5% with profits particularly impacted by increased energy and food costs as well as regulatory cost increases such as duty and the National Minimum Wage. Consequently, profit before tax and exceptional items was down 23.9% and adjusted earnings per share were also down 23.9% to 23.6 pence.

The Board took the decision to close out the remaining interest rate swaps created at the time of the proposed property joint venture in 2007. These had been retained as part of our future long-term debt. However it became clear that long-term debt was not

commercially available and that these swaps represented a significant risk. The swaps were closed out in May at a gross cost of £95m, or £69m post tax. The Company has no remaining exposure to any of these property swaps. This draws a clear line under these regrettable events.

In light of this final swap closure Tim Clarke felt that, as a matter of principle, he should offer his resignation and the Board, following consultation with a number of shareholders, accepted his decision. On behalf of the Board I would like to thank him for his significant contribution to the Company over 14 years as Chief Executive.

I would like to thank all our 42,000 employees for their dedicated effort as, throughout the year, our operational teams have remained highly focused, producing good results with strong like-for-like growth, further market share gains and excellent disciplines around cost control.

The composition of the Board has altered greatly over the year. The key executive change was the appointment of Adam Fowle to lead the Company as the new Chief Executive. Adam has considerable experience of the pub sector and within

Mitchells & Butlers, having a proven record of achievement in the Company over a 20 year period. In April, Mike Bramley retired from the Board, having made an outstanding contribution to the Company over the past 29 years, both operationally and through his work on the key strategic deals to reposition the estate.

In December, George Fairweather resigned from the Board having been a non-executive member since the demerger in 2003. George was replaced as chairman of the Audit Committee by Simon Laffin who joined the Board in January, and who later in the year became Senior Independent Director. Simon provides us with important risk, finance and property skills having been group chief financial officer of Safeway plc from 1995 to 2004. Richard McGuire was appointed a non-independent Non-Executive Director in July as the shareholder representative of the current largest shareholder Piedmont Inc., the investment vehicle of Joe Lewis. Richard has considerable financial experience gained from a number of senior positions including his current role as president of Tavistock Europe and previously as a managing director in investment banking at Citigroup. Denis Jackson and Ray MacSharry joined the Board as independent Non-Executive Directors in August. Denis has considerable investment banking experience, joining Salomon Brothers (latterly Citigroup) in 1990 and he has particular expertise in treasury and liability management functions. Ray has extensive corporate experience through his previous roles as non-executive director of Bank of Ireland plc and Ryanair Holdings plc, having been chairman of Ryanair Ltd before it became public in 1997. Prior to this, Ray held various ministerial positions in Ireland before taking on the role of Ireland's EU commissioner. In October, Tony Bates joined the Board as a Non-Executive Director. Tony is chief operating officer of COLT Telecom Group, having been a member of the board since joining in 2004 as group chief financial officer. Previously he spent 12 years at EMI Group plc where he was group chief financial officer and executive vice president of EMI Recorded Music. He brings important operational and financial skills to the Board. Douglas McMahon was appointed as a non-independent Non-Executive Director in November as the second shareholder representative of Piedmont Inc.

His experience in business strategy, product and brand development, and marketing will be of great benefit to the Board.

Mitchells & Butlers recognises the wider concerns caused by antisocial behaviour resulting from excessive alcohol consumption. We also recognise that the pub can play a key role in the supervised retailing of alcohol. At the heart of this is the importance of providing our customers with a friendly, safe, well managed licensed environment. One of the consequences of the controls we have in place is that, across all our pubs, we currently refuse to serve alcohol to around 20,000 people each month on the grounds of being intoxicated and approximately 80,000 people where no proof of age can be produced. In addition, we support local and national responsible drinking initiatives and endorse the strategies of the police and local councils to ensure that the small number of licensees who run irresponsible or unlawful pubs comply with licensing regulations or are dealt with appropriately.

Trading in the new financial year has started well, supported by a recent small upturn in consumer confidence. Inflationary cost pressures are currently more stable and less severe than last year with total regulatory and inflationary costs in the full year expected to increase by around £20m inclusive of the benefit of energy costs declining by some £10m. Against this, our efficiency and productivity improvements continue, supported by process and infrastructure developments from which we are aiming to achieve savings of around £20m this year.

Current trading is underpinning the performance in the first half of FY 2010, however the outlook for the second half is uncertain. It is clear that at a macro level some of the factors that are assisting performance may turn negative in the second half of FY 2010. In particular the outlook for disposable income and consumer confidence could be dampened if VAT and other taxes were to rise. Notwithstanding this, Mitchells & Butlers' strong brands, excellent sites and good operational skills leave the business well positioned.



1. Old Moat House
Crown Carveries, Luton

2. The Cardiff Bay
Harvester, Cardiff



3. The George
Ember Inns, Bromley

Operating and financial review

Chief Executive's review of the market and strategy

Adam Fowle
Chief Executive



In this section:

- Current trading
- Outlook
- The market
- Our strategy

Mitchells & Butlers' performance has improved through the 2009 financial year. This is a consequence of the effective implementation of our value and volume strategy together with rising consumer confidence since the start of August which has resulted in a sales increase and a recovery in the trend of net margins in the second half. FY 2010 has started well and Mitchells & Butlers remains in a strong position despite challenging macro economic conditions.

This review ('OFR') has been prepared in accordance with the requirements of the Companies Act 2006. It also incorporates much of the guidance set out in the Accounting Standards Board's Reporting Statement 'The Operating and Financial Review'. All numbers (except where stated) are before exceptional items.

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The second half of the 2009 financial year not only benefited from increasing sales but also saw reducing pressure on margins. This, coupled with lower energy costs, meant that the rate of net operating margin and absolute operating profit decline experienced in the first half significantly reduced through the second half. In the first eight weeks of FY 2010 these performance improvements have been maintained.

Current trading

In the first eight weeks of FY 2010 trading has strengthened with like-for-like sales growth of 3.2%.

	Current trading 8 weeks to 21 November 09	FY 2009 52 weeks to 26 September 09
Like-for-like sales		
Total	3.2%	1.6%
Food	5.9%	3.1%
Drink	2.0%	1.8%
Residential	4.4%	2.5%
High Street	Flat	(0.2)%

Like-for-like food and drink sales were up 5.9% and 2.0% respectively with a strong performance in residential pub food sales. The High Street segment has been resilient with sales flat on last year. Net margin percentage has improved compared to the same period last year.

Outlook

Trading in the new financial year has started well, supported by a recent small upturn in consumer confidence. Inflationary cost pressures are currently more stable and less severe than last year with total regulatory and inflationary costs in the full year expected to increase by around £20m inclusive of the benefit of energy costs declining by some £10m. Against this, our efficiency and productivity improvements continue, supported by process and infrastructure developments from which we are aiming to achieve savings of around £20m this year.

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1. The Woodland
Sizzling Pub Co., Whitby

2. The Oystercatcher
Vintage Inns, Climping, West Sussex



3. The Crown
Ember Inns, Four Oaks, Sutton Coldfield

£43bn

The eating-out market has doubled in value over the past two decades to be worth £43bn



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

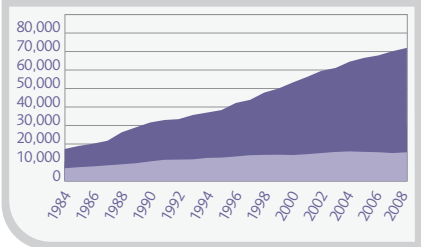
£20m

Our efficiency and productivity improvements continue, supported by process and infrastructure developments from which we are aiming to achieve savings of around £20m this year

41%

Food now accounts for 41% of managed sales up from 11% 15 years ago

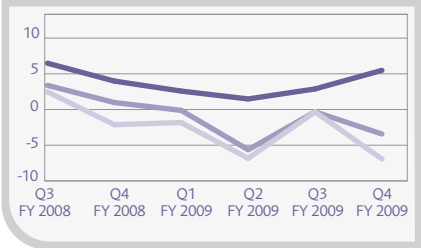
The market – consumer expenditure
1984–2008 (£m)



	Nominal	Real
Eating-out	8.3%	3.3%
Drinking-out	4.6%	-0.4%
Total	6.4%	1.4%

Source: ONS
NB Eating-out market includes soft drinks

Food value growth vs market
(%)



■ Mitchells & Butlers like-for-like value
■ Total market
■ Pub market

Source: CREST data, the NPD Group and Company

The market

The eating-out and drinking-out markets combined are worth some £72bn. The two main trends that are impacting these markets are:

1. The growing appeal of eating-out

The eating-out market has doubled in value over the past two decades to be worth £43bn. Growing wealth, increasing distribution, and a number of social factors particularly the increase in the proportion of working women, which now stands at 70% of the adult female population, up from 56% in 1971, have all contributed to this growth. In the past year the eating-out market has declined, as it did in the 1991 downturn. However, we expect the market to return to long-term growth as the UK economy emerges from recession.

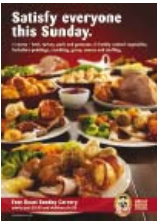
2. The declining appeal of drinking-out

In contrast the drinking-out market is worth some £29bn and has been static in value terms over the last five years, with annual volume decreases of 4% being offset by price increases of a corresponding size. This trend is particularly true of beer, the largest drinks category, accounting for over half of the on-trade drinks market. This is driven by a decline in the number of drinkers who visit the pub on a regular basis solely to drink beer to a third of the number 20 years ago, primarily as a result of the low price of beer in the off-trade. The on-trade beer market

therefore has declined in value terms by 0.7% per annum since 2004, despite price rises of 4% over the same period, resulting in annual volume declines of almost 5%. In contrast the off-trade has reduced its beer prices by 1.9% per annum and seen annual volume growth of 2.5%.

Segmenting the market

Mitchells & Butlers believes the two key dynamics of the eating and drinking-out markets to be the consumer occasion and consumer income levels. Our research suggests that there are a number of drink only occasions that vary along a spectrum, broadly defined by energy levels. These range from a quiet drink, through weekend nights out, to higher energy special occasions. There is a similar spectrum of food led occasions, ranging from a pragmatic alternative to cooking through to celebrations. Income levels are also important. The top 30% of the UK population by income account for 53% of the entire market. In contrast, the bottom 30% account for just 11% of the market. Although income does not explain all elements of the market, it is a useful proxy for understanding different attitudes to price and quality trade offs. Income also offers an insight into the different ways the UK population is currently responding to the downturn. Income is therefore one of the dimensions around which Mitchells & Butlers reorganised its operation in September 2009.



Promotional offers

This year we have invested £270,000 in a combined press and radio campaign to remind customers of what a great deal Toby Carvery offers on a Sunday lunchtime. This activity has driven both sales and profit growth of 3%. Cost efficient broadcast advertising requires brand name recognition and good distribution. We therefore have the opportunity to repeat this style of activity with a number of our brands.

£29bn

Total drinking-out spend in the UK has remained static in the last five years

Opposite page >

Top: The Hollybrook
Ember Inns, Littleover, Derby

Bottom: Food Innovation Centre
Hemel Hempstead



Food, drink
and service
excellence...

We served 129 million main meals last year, that's over 1,350 meals per pub per week.



...through
investment
in kitchen
skills

During the year, we formally commenced our Kitchen NVQ programme with over 1,400 employees having undertaken a course to date. We also opened a new kitchen skills academy dedicated to improving the quality and speed to customers of our food.



Food, drink
and service
excellence...

We sold 574 million
drinks last year, that's
an average of over
9 drinks per member
of the UK population.



...through
focus on
service
quality

Our focus on cellar training has
resulted in almost 1,000 cask
marque accredited pubs and
cask ale volume growth of 18%
in the year.

New channel operating structure

We have adopted a new structure of three channels based around the affluence levels of our customers, namely Value, Suburban and City & Country. In the Value channel, price is a vital component of the market. The average food spend per head is £4.76 and the main competition is staying at home. At these price points, service efficiency is vital to deliver profit. In contrast, in the City & Country channel the competition is other pubs and restaurants where food quality and service levels are the critical component of the offer. This is reflected in average food spend per head within this channel of £9.94. The Suburban channel is positioned in the mid-market where a strong price offer is important mid-week but evenings and weekends require a more premium positioning.

To sustain our sales growth within the market we have refined our value and volume strategy to ensure that these differing notions of value are being satisfied appropriately across the eating and drinking-out market. With some of the very best brands and formats in the sector we aim to create value by improving the profitability of these brands through our existing pubs, but we will also be seeking to expand the distribution of our key brands on an individual pub and restaurant basis as and when opportunities present themselves.

Our strategy

The key elements of our strategy are:

Leading the eating-out market

Over the last decade our understanding of the UK market combined with our operational skills have helped us to take

advantage of the increase in demand for eating-out and thereby to exploit profitably its long-term growth. We have developed menus combining both quality and value whilst at the same time investing in our kitchen capacity which has helped us more than double food volumes in the decade and made food the largest product in our sales mix at 41% of total sales. In FY 2009 we have increased our relative outperformance of the eating-out market to 10 percentage points with same outlet like-for-like food volume growth of 7% against a pub eating-out market down approximately 3%.

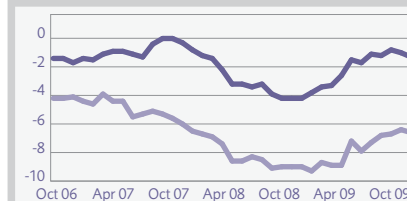
Generate drinks market share gains

The rapid volume decline in the on-trade drinks market has lessened in the second half of the year, partly as a result of a slight reduction in the rate of supermarkets' aggressive drinks discounting. However, the major on-trade market product categories are still all in decline with beer and cider volumes down 6%; wines down 5%; spirits down 5% and soft drinks down 2%. This decline is particularly reflected in pubs with poor amenity and limited food capability.

Against this challenging background Mitchells & Butlers has performed well. Our wine and soft drinks have remained in volume growth. Our spirits volume declines were materially better than those of the on-trade market; and in beer and cider, volumes have been held flat, thanks in large part to like-for-like cask ale volumes up 18% at a time when the on-trade beer market has continued to be in decline.

Beer market volume outperformance

MAT change in volume (%)



— Mitchells & Butlers*
— On-trade

Source: BBPA, Company

* Same outlet like-for-like



1. The Crown & Greyhound
Metro Professionals, Dulwich, London

2. Watergate Toll
Toby Carvery, Bolton

< Opposite page

Top: The Old Contemptibles
Classic Pubs, Birmingham

Bottom: Bells of St. Mary's
Crown Carveries, Prestatyn

+16%

Like-for-like draught cider volumes up
16% in the year

+4%

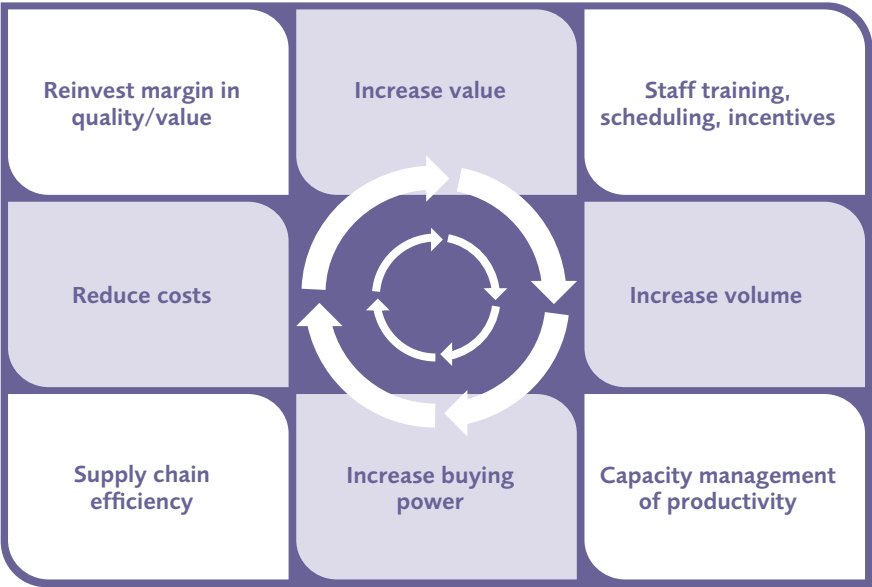
Like-for-like soft drinks volumes up
4% in the year in a market down 2%

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



1. The Hedgehog
Vintage Inns, Lichfield



Evolving a portfolio of styles of pubs to drive sales

Mitchells & Butlers has a track record of developing and evolving its offers to keep pace with changing consumer expectations. This has enabled us to build long-term brands such as Toby (37 years), Vintage Inns (17 years), O'Neill's (14 years), and All Bar One (14 years) and then to evolve them to ensure that they remain fresh and relevant to our customers. More recently, formats such as Crown Carveries and Premium Country Dining Group have been rolled out and we now have 111 and 57 pub restaurants respectively trading in these formats.

We are achieving sales uplifts of over 35% on the pre-acquisition levels of the 44 pub restaurant sites acquired from Whitbread PLC in September 2008. This, following the successful integration of our larger acquisition in 2006, further demonstrates the effectiveness and strength of our offers.

Extract volume-driven efficiencies

A key element in our trading strategy is targeting the best combination of price, volume and mix, to generate profitable growth. Our operational focus is on maximising the cash received after direct costs. Therefore, as a result of retail sales growth of 3.4% and despite the inflationary cost pressures, cash gross margins were up 1.3%. The key effect of our pricing strategy was to sustain volume growth in food, which in turn helped to generate a return to drinks sales growth for the first time since before the smoking ban.

Overall volume growth enables purchasing synergies and cost efficiencies to be achieved, enhancing profitability. For example in the year, our purchasing team have held our like-for-like food cost of goods inflation to £11m, below that of the general food cost inflation. In addition, during the year we have increased contribution per labour hour by 5.2%, serving 14 million more main meals and 3 million more drinks with 700,000 fewer staff hours.

+5.2%

During the year we have increased contribution per labour hour by 5.2%

35%

We are achieving sales uplifts of over 35% on the pre-acquisition levels of the 44 pub restaurant sites acquired from Whitbread PLC in September 2008

Opposite page >

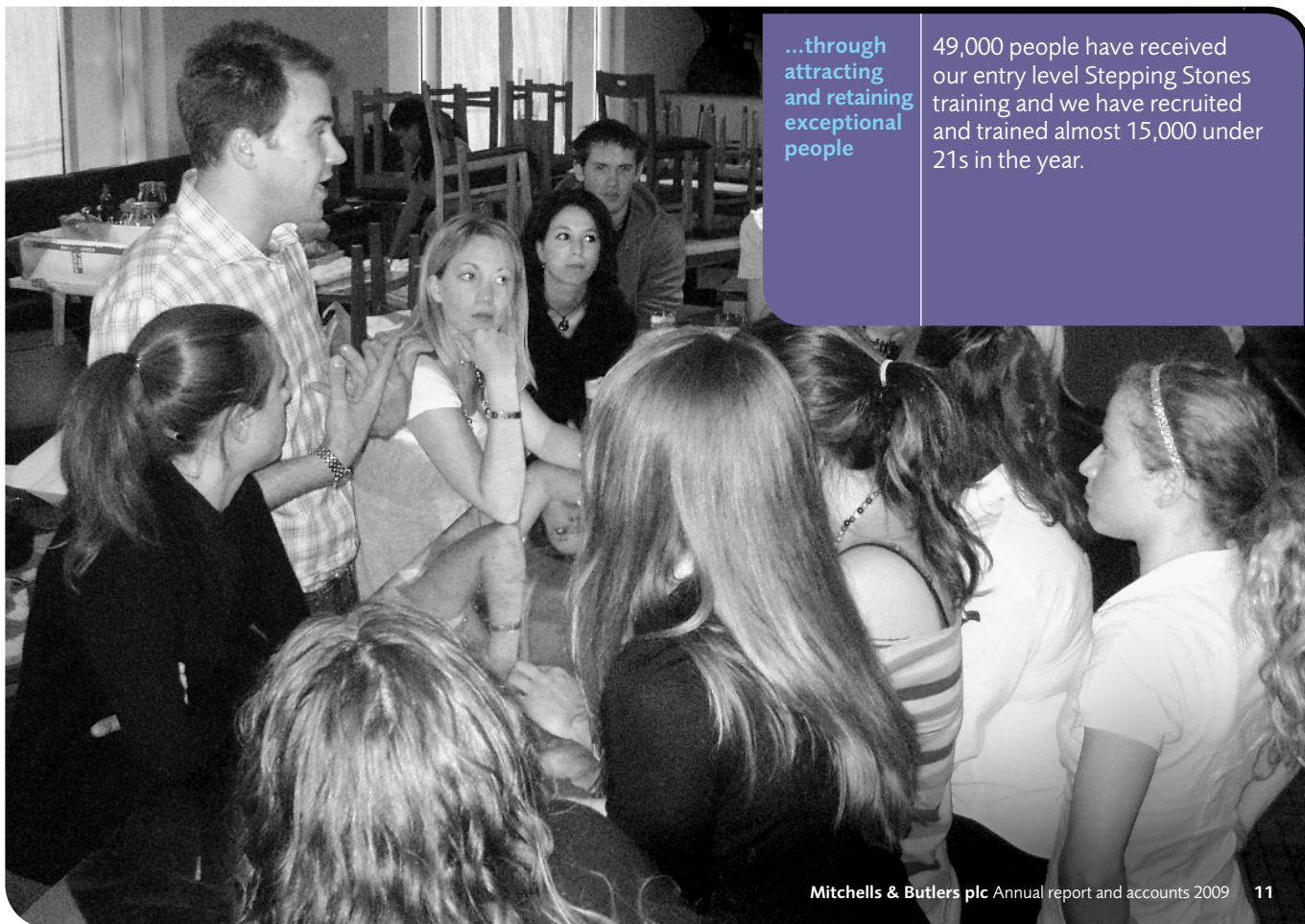
Top: Travellers Rest
Sizzling Pub Co., Caversham, Reading

Bottom: All Bar One
Canary Wharf, London



Food, drink
and service
excellence...

In declining markets we sold 3 million more drinks and 14 million more meals with 700,000 fewer staff hours in the year.



...through
attracting
and retaining
exceptional
people

49,000 people have received our entry level Stepping Stones training and we have recruited and trained almost 15,000 under 21s in the year.



Food, drink
and service
excellence...

With 3% of UK pubs
but 10% of sales,
we have the scale to
deliver both excellent
quality and value.

...through
purchasing
strength

For example we now
contract 15 million bottles
of wine from around the
world per annum as well
as 6 million rump steaks.



Extend the skill base of excellence throughout the estate

We continue to attract and train exceptional people looking to develop their career in licensed retailing and currently employ over 42,000 people throughout the estate. This allows us to support the delivery of our strategy through continually improving the operational capability of the business.

At the pub level training is conducted with all new staff, as well as specific ongoing coaching to improve bar and floor service productivity and increase staff product knowledge. In addition in support of our food growth strategy, our staff have undertaken over 1,400 NVQs during the year predominantly related to the training of new chefs. Furthermore, in January a new purpose-built kitchen skills academy was opened in Watford providing a dedicated state-of-the-art training facility. Training is a central factor behind our overall staff turnover rate improving by 24 percentage points to 92% in the year, one of the best in the pub industry.

Actively manage the estate to maximise value

In a pub market suffering from a dearth of capital investment in both maintenance and new product development, our continued capital investment in our pubs is giving us further competitive advantage and supporting our market share gains.

In addition to the completion of the conversion to our brands of the 44 pub restaurant sites acquired from Whitbread PLC in September 2008, we have targeted our capital expenditure on the key areas of the business prioritised in conjunction with customer feedback. We have therefore focused on carrying out 1,260 refurbishments with spends of £40,000 or below. In addition during the year we have spent an average of £79,000 on 575 larger projects, increasing amenity levels and supporting the growth of the business. This targeted approach has sustained our high amenity levels and supported the sales growth in the business.

Conclusion

Mitchells & Butlers has produced a robust operational performance in challenging conditions. Our strategy is delivering good sales growth and our continual operational developments are optimising our scale advantages and firming up net margins. The Company has sold 129 million meals in the year and grown average food sales per pub by 9%. The second half trend in net profit margin recovery continues. The first eight weeks of FY 2010 have started well and the strength of the Group's brands, locations, operational skills and cost management mean that we are well positioned for the year ahead.



1. The Plough
Fen Ditton, Cambridge

2. Martello Inn
Toby Carvery, Clacton-on-Sea



3. Browns
Old Jewry, London

< Opposite page

Top: The Swan Inn
Vintage Inns, Horning, Norwich

Bottom: Cantine Sgarzi Vineyard
Italy

42,000+

We currently employ over 42,000 people

+9%

The Company has grown average food sales per pub by 9% over the year

CSR highlights

- On average we record 80,000 under age refusals a month
- We have donated over £95,000 to Marie Curie Cancer Care during our first year of partnership with the charity
- Our pubs have recycled 21,000 tonnes of waste in 2009

Mitchells & Butlers continues to aim to deliver quality and value to customers, whilst maintaining our corporate social responsibility values. We are committed to operating our business responsibly; from the way we run our pubs, to how we support our local communities and the products we source. By building awareness and understanding of the importance of these values, we can manage our corporate social responsibility programme effectively.

Pubs are at the core of the country's social interaction and bring together people from different walks of life in a way that no other social institution can. Thousands of customers enjoy visiting the pub, safely, responsibly and without risking their health. This section provides the highlights of our corporate social responsibility activity. A more detailed account of Mitchells & Butlers' corporate social responsibility practices can be found in our separately published Corporate Social Responsibility Review 2009 at www.mbplc.com/csrreview

Corporate governance

Our Company is underpinned with a high level of corporate governance and recognises its role in creating a successful, sustainable and profitable business. We have implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company.

The Company has adopted a Code of Ethics (the 'Code') to promote honest and ethical conduct throughout our business. The Code, which previously applied to all senior managers, was extended during 2009 to cover all corporate employees. The Code requires:

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

In addition Mitchells & Butlers offers an independently administered confidential hotline, also known as a whistle-blowing 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 and Audit Committees.

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.

The Board is also responsible for the Company's internal risk management system. More details can be found in the Risks and uncertainties section of this report.

Alcohol and Social Responsibility Policy

Our pubs operate in hundreds of communities across the UK, serving thousands of customers every day. Our Alcohol and Social Responsibility Policy has been in place since 2000 and aims to ensure that all of our licensed premises are operated responsibly, safely and within the parameters of the law; while providing an inclusive environment for the sensible, controlled consumption of alcohol.

In September 2009, to reflect the introduction of the Licensing (Scotland) Act 2005, we launched a separate Alcohol and Social Responsibility policy for Scotland. The policy reflects our investment in the Scottish licensing law changes and incorporates the Act's five prime licensing objectives, the staff training requirements and details the mandatory conditions on pricing and promotions.

Pricing and promotions

We clearly support the ambition for a safe and vibrant leisure economy and acknowledge that safe and responsible operation is in everyone's interest. One of the more overlooked roles of the pub is that it supervises not only the sale but also the consumption of alcohol lowering the risk and ensuring its proper regulation. However this has been put to the test over the years, as the unsupervised off-trade can price more cheaply without this extra supervisory responsibility. In fact we refuse service to some 20,000 people a month believed to be intoxicated, showing the scale of the challenge facing our staff every day.



The principle of Challenge 21 – to support and educate our employees and customers on the issues relating to under age sales – is now firmly embedded in our company culture.



We are a major funder of Drinkaware, who aim to promote responsible drinking and find innovative ways to challenge the national drinking culture to help reduce alcohol misuse and minimise alcohol-related harm.



The Best Bar None scheme promotes best practice in the responsible and safe operation of pubs across the country. We continue to encourage our businesses to enter local schemes and this year we are proud to have Mitchells & Butlers' pubs accredited or named as Best Bar None winners.



1. O'Neill's
Cheltenham

2. The Red Lion
Sizzling Pub Co., Elstow, Bedford

3. Windhover Manor
Harvester, Bursledon, Southampton

Therefore we have incorporated into our Alcohol and Social Responsibility Policy strict guidelines on the pricing and promotion of the alcohol we sell. For example we do not allow promotions such as '2 for 1s', happy hours or 'pay £10 and drink all you can'. Our aim is always to ensure we offer our customers real value, at fair competitive prices; however we are also mindful of our duty to price our products responsibly.

Challenge 21

The principle of Challenge 21– to support and educate our employees and customers on the issues relating to under age sales – is now firmly embedded in our company culture.

Through our retail training programme we continue to underline the importance of Challenge 21 to our staff, as well as educating our customers that this is a key principle of how we operate our businesses.

On average we record 80,000 under age refusals a month, which is equivalent to 11 per pub per week.

Alcohol awareness

The nature of our industry is such that it is essential that we operate our pubs in a highly responsible manner. This involves supporting initiatives to reduce alcohol misuse and helping promote clear messages about drinking alcohol responsibly.

We are currently supporting a number of industry-wide projects in support of public educational, community and awareness campaigning. For example Mitchells & Butlers is one of around 45 drinks producers, pub operators and off-trade retailers who have agreed to take part in the Campaign for Smarter Drinking, a major marketing initiative to tackle binge drinking and drunkenness. The campaign will be delivered over the next five years and it is the first time that the trade has united behind one social responsibility campaign.



Our pub managers are supporters of Pubwatch, a voluntary scheme operating in hundreds of communities across the UK. Its purpose is to promote a safe, secure and responsibly led social drinking environment in all licensed premises.



Mitchells & Butlers is one of around 45 drinks producers, pub operators and off-trade retailers who have agreed to take part in the Campaign for Smarter Drinking, a five year major industry marketing initiative to tackle binge drinking and drunkenness.



Launch of charity partnership with Marie Curie Cancer Care

Chris Edger (HR Director), Louise Coway, Susan Osborne, Denise Attenbrow (Marie Curie) and Nick Owen (BBC Midlands Today)

Corporate charity partner, Marie Curie Cancer Care

In November 2008 Mitchells & Butlers announced a new charity partnership with Marie Curie Cancer Care. In addition to employee fundraising, the Company pledged a £25,000 donation to the charity to kick start the relationship.

Our first year of partnership has been a huge success, with our employees supporting the partnership through fundraising activities and taking part in our departmental fundraising challenges. This has resulted in our employees raising over £70,000 for the charity in just 12 months through their enthusiasm, generosity and dedication to the partnership.

This fundraising has been boosted by our Sizzling Pub Co. pubs in the north of England and Scotland pledging their support for Marie Curie Cancer Care by supporting the West Highland Walk Challenge. Nine willing team members bravely trekked more than 90 miles across the Scottish Highlands

on the West Highland Way Walk. More than 100 northern Sizzling Pub Co. pubs supported the effort by hosting individual fundraising events with everything from a hair-raising sky dive to an indoor Olympics. Their combined efforts raised an astounding total of £33,000 in just a few weeks.

Arun Sharma, Head of Corporate Fundraising at Marie Curie Cancer Care said: 'The amount Mitchells & Butlers employees have raised is a magnificent achievement and will help us make a real difference to terminally ill people and their families. £95,000 will help us provide 4,750 hours of nursing care, so I would like to thank everyone for their fantastic efforts and we're looking forward to another year of fundraising ahead.'

We are extremely proud of this achievement and hope to build on this success as we continue the partnership into 2010.

Mitchells & Butlers has been actively involved in the preparation of the campaign. Following its launch in September 2009, our marketing teams have worked to incorporate the Campaign for Smarter Drinking messaging into our marketing materials. The campaign's strapline 'Why let good times go bad?' is being communicated across our pubs in various forms including posters, beer mats, food and drink menus and online as well as being introduced into our training programmes.

Disorder

We believe that threatening the safety and well-being of staff, customers and the public in general is unacceptable, and that those guilty of creating disorder or committing other crime should be dealt with using the full force of the law. Equally we believe that the authorities should deal severely with licensed premises that persistently break the law or encourage antisocial behaviour.

Industry partnerships

As a pub operator it is essential we play an active part in liaising with our key authorities and industry bodies in pursuit of our commitment to responsible retailing practices.

We are a longstanding member of the British Beer & Pub Association and have senior managers and retail business managers representing the Company at policy-making level.

Mitchells & Butlers supports a number of Business Improvement District schemes ('BID's), including Broad Street, Birmingham and Nottingham, which is the only completely licensed trade supported BID. We view BIDs as an important channel to drive down crime, build excellent relationships with key local authorities and provide a platform for benefiting the local area.

Health and safety

We strive to ensure our pubs provide a safe environment for all our staff and customers. In addition, we:

- aim to protect the health of our employees through our health and safety management strategies;
- seek to minimise the risk of injury from company activity; and
- ensure that sufficient resources and information are made available and suitable management systems are in place to address health and safety matters.



Mitchells & Butlers commended at Business in the Community Carbon Positive Awards
Carl Wassell and Ian Gosling (Purchasing Managers)

Carbon Positive Award

In May 2009 Mitchells & Butlers celebrated being one of the first companies to win a Midlands C+ Carbon Positive Award for being one of the regions 'greenest' businesses.

The new awards scheme, organised by Business in the Community and supported by Advantage West Midlands was presented as part of the Prince's May Day Summit event in Birmingham.

Mitchells & Butlers won a Highly Commended Award in the C+ Carbon Positive Footprints category. The Company was praised for successfully cutting carbon emissions and internally managing our carbon footprint. The judges specifically acknowledged Mitchells & Butlers energy metering and measuring processes, as well as our waste-stream and recycling management.

David Darlaston, Regional Director of Business in the Community, was delighted with the response from the region:

'It is vitally important for our region to embrace the Carbon Reduction Commitment and these accolades will perform a dual role in promoting the companies who are leading the way and act as inspirations for others to follow.'

The Company requires pub managers to keep records of all safety checks for food, fire and health and safety. Plus each year we operate designated safety weeks aimed at reinforcing the Company's policies and making our pubs even safer places for our customers and staff. 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.

Food

We remain consistent in our approach to offering our customers choice whilst investing in enhancing the nutritional content of our menus.

Nutrition and calorie information

We operate a variety of styles of pubs and have a wide selection of dishes available on our menus. We work closely with our food suppliers to develop our range of menu items, again with the focus on improving nutritional content. Adding to this we are also focusing on food preparation and, where possible, how we can incorporate healthy cooking practices into our kitchens.

Mitchells & Butlers is one of the first pub companies to agree to publish information on the calorie content of dishes on the menus in two of our brands – Harvester restaurants and Scream pubs – as part of our involvement in the Food Standards Agency initiative.

The trial, which began in June in around 25 of our businesses, aimed to help improve customer awareness of the nutritional content of a dish, at the point when they are looking to decide on their menu choice. Supporting this voluntary scheme has enabled our Menu Development team to monitor customer reaction to the wide range of healthy options we serve and therefore expand our commitment to providing good nutritious food in our businesses.

We held our own customer discussion groups to gain feedback during the trial, as well as allowing the Food Standards Agency access to our pubs to conduct consumer research. Now the trial is completed we have a better understanding of which of our healthy meal choices are popular, and are currently working on how we can expand these options and continue to give our customers choice.

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 and Crown Carveries websites. Our menus are constantly evolving and we will continue to look for opportunities to provide our customers with nutritional information in the future to further enhance our menus.

Community

Through the hard work and dedication of our customers and staff alike we have developed a strong network of local pubs, focused on forging good relations with a portfolio of charities, whilst enhancing our pubs' vital role within the community.

Our integrated community involvement, charity and sponsorship programme encourages and supports this positive local impact. Furthermore these efforts are central to maintaining Mitchells & Butlers' reputation and showing the British pub continues to be the true home of safe, responsible and social drinking.

We acknowledge the time, effort and enthusiasm our pub teams invest throughout the year in charity relationships for the benefit of both individuals and the wider community.

This year we are particularly proud of the following initiatives:

- In March both Ember Inns and Crown Carveries supported the 'do something funny for money' comic relief challenge. Over the month Ember Inns raised £65,000 and Crown Carveries generated a £32,000 donation.
- Harvester restaurants were proud to present a cheque for £23,500 to the Make-A-Wish Foundation® UK following a number of charity balloon launches at Harvesters across the country in Autumn 2008. In addition to the balloon launches, many of our restaurants put on extra events to raise money for Make-A-Wish through fundraising raffles, competitions and quiz nights.
- Following the 'Clink Pink' month in March, Community Pubs and Cornerstone raised a fantastic £10,000 for the charity Against Breast Cancer. The money was raised by donating 5p for every 175ml of rosé wine sold and also via pub specific fundraising events.

Energy management

Reducing energy consumption makes good business sense; it saves us money, enhances our reputation and most importantly helps to tackle the effects of climate change.

Reducing energy consumption

In early 2008 we created a dedicated energy team to establish a coherent company-wide approach to energy management. Therefore over the last 12 months our focus has been to establish the importance of energy efficiency and the opportunity to reduce consumption and costs across Mitchells & Butlers' businesses.

Our initial aim has been to tackle energy consumption levels. We now have a team of regional energy managers who work alongside our Operations and Commercial departments to ensure our energy reduction strategy is co-ordinated across the business. This may involve helping individuals at high consuming sites to reduce consumption or managing the upgrades of utility equipment to ensure we are operating our pubs as efficiently as possible, whether switching equipment off when not in use or spotting equipment that needs fixing. Trade lights in a pub which are turned on an hour earlier than required could be wasting £250 per year; a fryer turned on an hour early will waste £500 per year; and a dripping tap could waste £500 of water a year.

We regularly conduct energy audits to identify high usage pubs and produce a series of action points for our pub managers. This is proving very effective and can often result in immediate cost savings through simple measures such as resetting external lighting timers or heating clocks.

Staff energy awareness

Central to our strategy is the communication and training of energy management practices to help drive operational best practice. We have integrated energy awareness messages into all our retail training packages ensuring our retail operations directors, retail business managers, pub managers, kitchen managers and full and part-time retail staff are all given guidance. In addition, our ongoing energy campaign uses a series of tools and regular communications messages to maintain interest and compliance with our strategy. We have identified team members with a real passion for energy management and elected them as energy champions to offer advice and help to colleagues. We have also included energy reduction targets in our pub manager and retail manager bonus structures to ensure we underline the importance and long-term business commitment to our energy management programme.

Waste management

Our priority remains to continue to look for ways to reduce the levels of waste we produce and recycle what we do use.

Recycling

Our aim is to maximise the recycling opportunities across our estate and we continue to deliver a robust recycling programme which now involves glass, cardboard and waste cooking oil.

We now have four out of every five Mitchells & Butlers pubs taking part in our recycling initiatives. We continue to maintain our recycling levels with 21,000 tonnes of waste recycled this year.

We collect and recycle waste cooking oil from all our pubs. The waste oil is converted into bio-diesel or renewable energy and helps support our aim to reduce carbon emissions. In the last year we have collected 1,939 tonnes of cooking oil resulting in a UK CO₂ emissions reduction of 3,684 tonnes per annum.

Mitchells & Butlers CSR publications

More detailed information on Mitchells & Butlers' CSR policies and initiatives can be accessed online at: www.mbplc.com/csr

The following publications are also available online:

Annual corporate social responsibility review

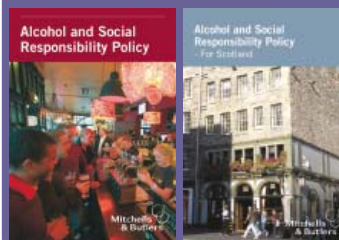
Mitchells & Butlers publishes a comprehensive corporate social responsibility review every December. This review covers seven areas that are of key importance to us as a company, as well as to our customers, employees, local communities, suppliers and shareholders, namely:

Alcohol, Food, Employees, Customers, Community, Environment, Corporate Governance



Alcohol and Social Responsibility policies

Our Alcohol and Social Responsibility policies for England & Wales and Scotland detail our responsible operational, promotional and training guidelines.



Key performance indicators

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

It is a key principle of the Group to align the interests of the Directors and other employees with those of its shareholders. Executive remuneration therefore includes measures linked to 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 Group's TSR has declined significantly reflecting the effect of the swap losses, the recent economic and market pressures as well as the decline in the stock market performance of the pub sector over this period.

Various changes have been made to the FY 2010 remuneration measures and these are outlined in the Remuneration report

from page 45. From FY 2010 the KPIs will be altered to be aligned with the new measures. EPS growth and incremental return on capital over a four year period will be used as the key metrics to gauge the performance of capital investment as EPS including depreciation as a capital charge is a good reflection of Group returns and incremental return on capital demonstrates returns on recent investments. It is therefore the opinion of the Remuneration Committee that these measures better reflect management and share price performance. As a result the CROCCE in excess of WACC measurement will not be used from FY 2010 onwards.

In FY 2009 Mitchells & Butlers implemented and monitored its performance against its strategy principally through four KPIs. The performance in the year was as follows:

KPI	KPI definitions	Progress in FY 2009
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 robust like-for-like sales growth of 1.6% in FY 2009 compared with the prior year (1.0% in FY 2008). The increase in this trajectory is notable given the challenging recessionary trading conditions which the business has faced over the year.
2. EPS growth	Adjusted earnings per share for the year compared to last year, as reported in the financial statements, expressed as a percentage.	Operating profit before exceptional items in FY 2009 was down 12.5% on the previous year as a result of increased food, energy and regulatory costs and a one-off profit of £11m from our property development division in FY 2008. As a result of increased interest costs in relation to the unsecured medium-term facility, earnings per share before exceptional items and other adjustments declined by 23.9% to 23.6p per share (a decrease of 11.3% in FY 2008).
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 Group financed through debt and equity.	Mitchells & Butlers aims to maximise the difference between the post-tax CROCCE and its WACC. A CROCCE of 9.8% after tax was achieved in the 52 weeks to 26 September 2009, ahead of the estimated 6% WACC for the year, reflecting good operating performance supported by an efficient use of the balance sheet. (CROCCE was 10.6% after tax in the 52 weeks to 27 September 2008, 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. Pubs are included once they have been trading for three months. For pubs 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.	The performance in this area has been strong and remains well above our cost of capital. Pre-tax returns of 13% are being achieved on the expansionary capital projects carried out over the last two years (10% on the same basis at FY 2008).

Operating and financial review

Financial review

Jeremy Townsend
Finance Director



In this section:

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

- Revenue performance
- Costs
- Profit performance
- Exceptional items and other adjustments
- Finance costs and revenue
- Taxation
- Earnings per share
- Cash flow and net debt
- Treasury management
- Pensions

Despite the challenging economic conditions, Mitchells & Butlers delivered 1.6% like-for-like sales growth in the year with both food and drink categories in good growth against their markets. Cost management is a key focus and productivity gains have once again been strong. The management of cash resources continues to be important with capital investment concentrated on maintaining the amenity of the estate as well as targeting expansionary capital that delivers the best returns.



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Group results

In the year the Group delivered strong like-for-like sales growth and continued market outperformance in both drink and food sales. Total revenue for the year was £1,958m, up 2.6% on last year. This includes the first full year of ownership of the 44 pubs acquired in the swap deal with Whitbread PLC in September 2008 and a slight dilution from disposals made during the year. Despite further operational efficiencies, profits were down against last year due to substantial increases in food, energy and regulatory costs. Retail operating profit was £300m compared to £332m last year.

Like-for-like sales growth in the Residential estate was 2.5%, showing the strength of the Company's brands and the good demand for value-for-money food and drink offers in these areas. On the High Street, sales were resilient given the intense pressure on this sector from the declines in the late evening market.

Like-for-like sales	Same outlet
Residential	2.5%
High Street	(0.2)%
Total	1.6%

Mitchells & Butlers is well positioned to benefit from a market more focused on value and quality than ever before. The growth of our mass-market offers, such as Crown Carveries and Sizzling Pub Co. that have main meal prices below £4, together with the strong performance of our mid-market and higher-end pubs, has enabled the Company to deliver same outlet like-for-like food and drink sales up 3.1% and up 1.8% respectively in the year.

On an uninvested basis, which excludes pubs that received investment above their normal maintenance cycle, like-for-like sales were up 0.8%.

Based on our ongoing pricing strategy to drive value and volume throughout the business, average food spend per head including mix and range changes was down 3.7% whilst drink prices were up 2.1% (in like-for-like pubs excluding VAT). Like-for-like food volumes were up 7.1% against the pub eating-out market which was down 3% (Source: Crest data, the NPD Group). Like-for-like beer and cider volumes were flat against a market down 6% (Source: BBPA).

Other sales excluding drink and food were down 8.7% on a like-for-like basis, driven by pressure on accommodation, machine and bowling sales. However, machine sales have improved considerably since the review of stakes and prizes towards the end of the financial year.

There has been continuing pressure in the year on the gross margin percentage which was down 1.5 percentage points. This was particularly as a result of food inflation and duty increases as well as the swap of higher gross margin lodge assets for the 44 Whitbread pubs.

There were an additional £30m of regulatory costs caused by increases in the National Minimum Wage, holiday pay regulations, business rates and exceptional alcohol duty increases. A further £24m of incremental cost was driven by increases in energy rates and food cost of goods. Partially offsetting these, our continued focus on improving productivity resulted in £20m of savings. Staff productivity improvements of 5.2% were achieved in the year and there were significant gains from menu development, waste reduction and energy efficiency. As a result of these factors, employment costs rose marginally to 24.3% of sales and Retail operating margin before exceptional items fell by 2.2 percentage points to 15.3%.

Capital expenditure in the year was £122m, of which £86m was invested to maintain the high levels of amenity in the pubs and in the continuing development and evolution of our brands and formats. The remaining £36m was spent on expansionary projects including £21m on the conversion of the 44 pubs swapped with Whitbread PLC to our brands and formats. The return on capital spent over the last two years was 13%,

which is lower than the returns in recent years due to the inflationary cost pressures, however is significantly higher than our cost of capital. The 44 converted Whitbread pubs achieved sales uplifts of over 35% against the level prior to acquisition, well ahead of our targets. During the year, four new pubs opened and 15 existing pubs were converted to one of our brands or formats to uplift their sales and profits.

We have also achieved disposals worth £72m in the period. These have been at high pub EBITDA multiples of around 11 times, in a market which is more challenging but where there are still opportunities to create value.

In the second half of the year the Company merged the management and operations of the Pubs & Bars and Restaurants divisions to operate the business as one division through three different channels. A divisional split is shown below as this structure was in operation for the majority of the year. Going forward we will not report operating profit by channel but on a one company basis. We will continue to provide food and drink and Residential and High Street sales information.

Pubs & Bars

	FY 2009	Growth
Revenue	£958m	0.4%
Operating profit*	£159m	(9.7)%
Same outlet like-for-like sales		1.7%

* Before exceptional items

Pubs & Bars delivered revenue growth of 0.4%. The division continued to achieve market share gains in drink and food sales as a result of our high levels of amenity, wide product range and value-for-money positioning, in contrast with many of our competitors. Food sales in the year were up 7.7% driven by strong growth in a number of formats, most notably O'Neill's, Scream, Metropolitan Professionals and our Town Pubs estate.

Pubs & Bars' operating profit before exceptional items of £159m was down 9.7% with operating margin decreasing by 1.8 percentage points to 16.6%, impacted by the regulatory cost increases and price rises in food and energy.

There were 1,065 pubs in the Pubs & Bars division at the end of the year.



1. The Argyll Arms
Nicholson's, Central London

2. Brampton Mill
Premium Country Dining Group,
Brampton, Huntingdon

Restaurants

	FY 2009	Growth
Revenue	£999m	6.4%
Operating profit*	£141m	(9.6)%
Same outlet like-for-like sales		1.5%

* Before exceptional items

The Restaurants division has successfully integrated and converted the 44 pubs swapped with Whitbread PLC into our brands and formats and total revenue growth was up 6.4%. Food growth was especially strong in some of our newer brands such as Crown Carveries and Miller & Carter.

Restaurants' operating profit before exceptional items of £141m was down 9.6% against last year. Operating margin was down 2.5 percentage points to 14.1% as these pubs are more acutely impacted by the increases to food and energy costs as well as slowing accommodation sales. There were also significant pre-opening and closure costs relating to the recently converted Whitbread pubs.

There were 816 managed pubs in the Restaurants division at the end of the period.

Property

The Group has, in accordance with its accounting policy, reviewed the value of the estate. The property value of £4.5bn reflects the downward adjustment of 2.3% or £106m, mainly driven by reductions within Hollywood Bowl, the Lodge business, late evening pubs and venues and a small number of drink focused pubs where food development is limited. This has been reflected as a £52m downwards valuation adjustment and a £71m impairment charge in the income statement with a net £17m revaluation uplift reported as a reserves movement.

Exceptional items and other adjustments

Exceptional items and other adjustments are separately disclosed in order to aid the readers' understanding of the Group's underlying trading. Exceptional items are those which do not form part of the core operations of the Group, or which are sufficiently large to warrant separate disclosure in order to facilitate comparisons with earlier trading periods. Other adjustments include certain non-cash adjustments, which are prone to volatility as they are driven by movements in market values, including the net pensions finance charge and, in the prior year, hedge ineffectiveness relating to the swaps closed out in the period. The Board focuses on performance measures which exclude these items in order to aid comparisons of underlying performance year-on-year.

A net loss of £8m was made on asset disposals in the year, with pub disposals made at a small loss to book value and additional losses on other non-pub disposals. Interest rate swaps, retained in 2008 following the proposed property joint venture as an intended hedge against cash flows arising from part of the Group's unsecured debt, were closed out in May 2009 crystallising a loss of £95m. This resulted from the ongoing illiquidity in the debt markets which meant that it was unlikely that the Group would be able to utilise these swaps within a medium-term or longer-term facility in the near future. The movement in the fair value of these swaps charged to the income statement in the period was £55m. There are no swaps remaining on the Group's balance sheet relating to the proposed property joint venture.

An exceptional pension credit of £44m was recognised as a result of the introduction of a 2% cap per annum on the increase in salary used to calculate retirement benefits. We now adjust underlying profits to remove the volatile, non-cash, net finance charge from pensions, which was £6m in the period and a £3m credit in the prior year.

Provisions of £16m have been released in 2009 relating to tax matters which have been settled, principally relating to demerger costs and qualifying capital expenditure. In addition, £4m of interest arising on the settlement of prior year tax matters has been received in the period.

Total exceptional items and other adjustments reduced profits by £144m (£92m after tax).

Finance costs and revenue

Finance costs during the year were £167m before exceptional items and other adjustments, £7m lower than the same period last year reflecting the decreasing levels of medium-term debt in the business. Finance revenue of £1m before exceptional items and other adjustments was achieved on the Group's cash balances, £6m lower than the same period last year due to a significant reduction in short-term interest rates on cash deposits. We anticipate an interest cost on the Group's net debt during the current year of approximately 6.2%.

Taxation

The tax charge for the year was £38m before exceptional items and other adjustments. This is an effective rate of 28% of profit before tax. We expect this rate to increase in the current year to a more normal rate for the Group of 29%.

Earnings per share

Earnings per share were 23.6p before exceptional items and other adjustments, a decrease of 23.9%. Earnings per share were 1.0p after exceptional items and other adjustments caused largely by the loss on the closure of the financial hedge and the property valuation adjustment.

Dividends

As stated previously, the Board is currently targeting the Group's cash flow generation on reducing debt levels, thereby increasing capital appreciation for shareholders. The Board will not resume dividend payments until the borrowings on our unsecured facility are comfortably below £300m.

Cash flow and net debt

The continued focus on cash generation to restore the strength of the Company's balance sheet has resulted in net debt reducing by £135m during the year and by over £300m since the high point in February 2008. The ratio of net debt to EBITDA has remained broadly stable at 6.1 times.

A core part of the Company's financing is a three year unsecured facility to November 2011. At 26 September 2009 the value of this facility was £550m and drawings on it were £383m. During the year the Company renegotiated the terms of this facility and after the year end accelerated the reduction in the facility limit to £475m to reduce interest costs. The facility step downs are as follows:

Commencing after	Facility limit £m
30 September 2009	475
30 June 2010	425
31 December 2010	338

The facility matures in November 2011.

The Group's operations continue to be highly cash generative. Cash flow from operations was £426m before net capital expenditure and exceptional items but after £24m of additional pension contributions.

The total cash outflow on capital expenditure of £129m was significantly lower than the £193m spent in the prior year, largely due to the conclusion of the conversion of the 239 pubs bought from Whitbread PLC in 2006 to our brands and formats. This was offset by £72m of disposals, with net cash flow relating to capital expenditure and disposals of £57m.

Net interest paid of £160m was £4m lower than last year as a result of debt levels being paid down. £4m was received as a result of the exercise of share options. Net tax receipts of £21m were received compared to payments of £4m in the prior year driven by £7m from the settlement of prior year issues and £14m from tax credits from the losses on hedging arrangements. As a result, there was a decrease in net debt of £135m arising from non-cash movements of £(6)m and from cash inflows of £213m before exceptional cash outflows of £93m and cash tax credits of £21m.

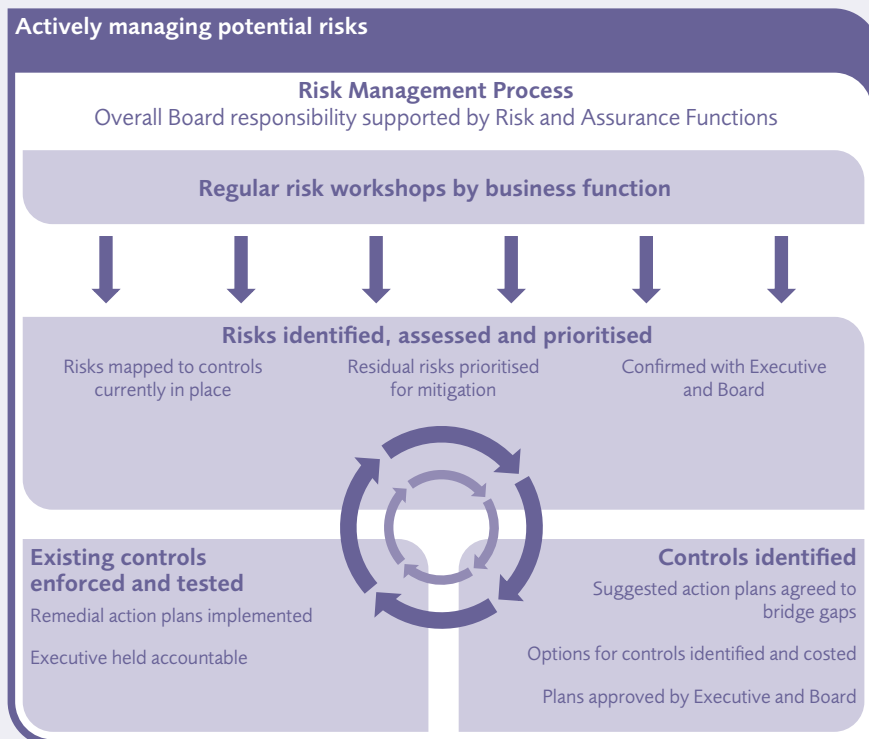
Net debt has been reduced from £2,735m on 27 September 2008 to £2,600m on 26 September 2009, comprising of securitised debt of £2,319m, non-securitised other borrowings and finance leases of £388m and cash balances of £107m.

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

The pension deficit on the balance sheet has increased to £130m at the year end, primarily due to a reduction in corporate bond yields. The next pension scheme triennial valuation for funding purposes is due in March 2010. Discussions have commenced with the Pension Trustees in respect of the various assumptions to be used in the valuation, some of which could vary significantly from the accounting basis, and we therefore anticipate that the valuation deficit may be higher than £130m. A revised funding plan will be agreed with the Trustees once the valuation process is complete.



In order to operate successfully, risk is considered in everything we do. Over the last year we have strengthened the Board and its committees to improve the manner in which we understand, evaluate and mitigate these risks.

This section highlights some of the risks which affect the Company. It is not intended to be an exhaustive and extensive analysis of all risks which may affect the Company, but those which have been identified and could have a material impact on Mitchells & Butlers' long-term performance and achievement of its strategy. These risks have been grouped under the following headings: market; operational; regulatory and financial. 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 Assurance team who report through the General Counsel to the Executive Committee and the Board. The process adopted to ensure that we understand, evaluate and mitigate the potential risks facing the business is shown above.

The Board has overall responsibility for managing the Company's risk. A sub-committee of the Executive (the Risk Committee) assists the Board and the Executive Committee in the review of risk management processes and in the consideration of major risks.

Its primary responsibilities are to:

- review the operation of the risk management process;
- consider 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 Audit Committee.

The Board also receives regular updates on significant legislative changes or developments 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.

Market-driven risks

Consumer expenditure

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

Mitchells & Butlers has around 2,000 pubs across the UK with a wide spectrum of customer offers targeted at different consumer groups and leisure occasions. This range provides flexibility to respond to changes in consumer expenditure either by altering the products sold and prices charged, or by substituting a more appropriate style of pub at a particular location.

Consumer taste

Changes in consumer taste or a new or improved competitor offering may reduce the appeal of Mitchells & Butlers' pubs to its customers, especially if the Company fails to anticipate, identify and respond adequately and promptly to these changes.

For example, on a long-term perspective, social and demographic changes have driven the growth in pub food while at the same time leading to a steady decline in the on-trade beer market. This decline has been further impacted by the introduction of the smoking ban in England on 1 July 2007 and the loss-leading pricing policies of the large supermarket groups, with the off-trade in total now accounting for almost 50% of all UK beer sales up from 18% 20 years ago. Competition in the eating-out market has increased as pubs have responded to the decline in drinks sales by introducing food or improving their existing menus. In light of this threat, Mitchells & Butlers has responded by improving the quality, value and range of its menu items and drinks offers in order to gain market share.

On a regular basis, there are marketing strategy meetings which analyse a variety of data to ensure that Mitchells & Butlers pubs are maintaining their relevance to their customers. This analysis is part of a structured programme to develop new styles of pubs and continuously improve existing brands. This process is co-ordinated with a property review to ensure the appropriate capital investment is taking place to support the marketing strategy. The evolution of Harvester, which has returned to sales growth following menu and pricing changes, and the development of Miller & Carter, a steakhouse offer, which has grown to 16 pubs over the last two years are relevant recent examples of this process in action.

Operational risks

Pricing Risks

The pricing of products is a critical management tool in maximising cash gross margin and therefore growing the net operating profits of the business. There is a risk that if the Company fails to price the products that it sells at the right level, volume declines will occur if the price is too high or insufficient margin will be achieved if the price is too low, thereby impacting on the profitability of the Company. As a result, retail pricing decisions are constantly monitored by a central pricing team which reviews and assesses the impact of pricing changes on profitability to ensure that any changes are effective.

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 dependent on world economic conditions, global availability, foreign exchange fluctuations and demand for products. In FY 2008 and FY 2009 there has been an incremental food cost of £9m and £8m respectively. There are some signs that the level of future price increases will be at a lower rate however it is likely that they will still be subject to volatility.

Despite this, as a result of the value and volume strategy that the Company pursues and the strength of its consumer offers and pub estate, Mitchells & Butlers has continued to grow food volumes mitigating the increases in food cost of goods. Purchasing effectiveness is a key area of focus as the large number of food ingredients and fragmented nature of food suppliers on the world commodity markets have given Mitchells & Butlers a greater opportunity to source food from alternative suppliers. In addition to this, the Company continually reviews its cost of goods for each menu item in order to maximise value to the customer as well as profits, and this menu management process also assists in mitigating food cost increases.

In drinks Mitchells & Butlers has successfully renegotiated supplier contracts partially offsetting the effect of duty increases. Additionally, as the Company'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 obligations 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 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 consumption and works with the business to find ways to promote further efficiencies.



1. Stafferton Lodge
Toby Carvery, Maidenhead

2. The Duke's Head
Premium Country Dining Group, Crawley



1. Neptune
Harvester, Boscombe

2. The Masons Arms
Crown Carveries, Bristol

The Company also regularly reviews the financial position of its major suppliers to assess the risk of suppliers ceasing to be able to trade.

Service standards

Service standards are a critical component of Mitchells & Butlers' pubs' success with levels of service and retailing standards a key element in the consumer's choice of pub. Mitchells & Butlers operates ongoing staff training focusing on service quality and supports this through a variety of methods including guest satisfaction surveys.

Health and safety

Mitchells & Butlers is the largest on-trade caterer and there is therefore the potential that there might be a major health and safety failure leading to illness, injury or loss of life or significant damage to the Company's reputation. In light of this, the Company has in place rigorous health and safety training programmes and regular independent audits which are carried out to ensure that procedures are followed.

People

Critical to Mitchells & Butlers' success is its ability to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process has been established to provide structured succession planning.

The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. Furthermore an employee attitude survey is conducted annually to establish employee satisfaction and engagement and to compare it against other companies as well as previous annual surveys.

IT systems

Mitchells & Butlers is reliant on its IT systems to trade efficiently and to ensure that appropriate controls are in place. There is a potential for a failure of key IT systems for a sustained period which may restrict sales or reduce operational effectiveness. Therefore the Company has in place a number of tested contingency plans and disaster recovery processes which mitigate the impact of such failures.

Regulatory risks

Mitchells & Butlers operates in a heavily regulated sector, where changes in regulation can have a significant impact.

Some examples of the regulatory changes which have affected Mitchells & Butlers include:

National Minimum Wage and Holiday Pay

The National Minimum Wage was introduced 10 years ago 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) and in October 2009 it rose by 1.2% to £5.80. In October 2007 new rules increased the statutory holiday entitlement of staff from 20 to 24 days, which increased the Company'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 Company to maintain the ratio of employment costs at 24.3% of sales in FY 2009.

Licensing

New licensing laws became effective in England and Wales in November 2005 with similar changes being introduced in Scotland in September 2009. 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.

The Policing and Crime bill is currently in committee stage in the Lords. The bill takes a two-tiered approach to further regulation of alcohol retailers with a small number of mandatory conditions for all alcohol retailers, alongside new discretionary powers for local authorities.

Mitchells & Butlers does not operate any 24 hour licences and invests heavily in the training of its pub managers and staff to ensure continued compliance with licensing

laws and that its pubs are operated in a responsible manner.

Taxation

Mitchells & Butlers' profitability is affected by a number of different taxes. These include duty on alcoholic beverages, property rates, VAT, corporation tax and other business taxes. There is a risk that tax legislation changes may result in increased levels of tax and therefore reduced revenue, profitability or cash flow.

Mitchells & Butlers ensures it takes appropriate action to minimise the risks from legislation changes 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 improvements in operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases or other cost reductions.

The amount and timing of the Group's cash tax payments and receipts are dependent upon the interpretation of tax legislation. Alternative interpretations could affect tax returns which are submitted but not yet approved, material tax losses utilised in prior years or available for offset against future profits and claims for overpayments of tax in prior periods.

Should the Company be subject to a change of ownership as defined by the Income and Corporation Taxes Act 1988 (Sections 768, 769 and Schedule 28A) and be deemed to have undergone a significant change to its business, tax losses available for offset against future profits could be lost or the timing of cash tax credits could be impacted.

In mitigation of the above risks, Mitchells & Butlers monitors its tax position on an ongoing basis in conjunction with advice from tax specialists and discussions with HMRC.

Financial risks

Hedges

The Group uses interest rate and currency swap contracts to hedge its exposure to changes in interest rates and exchange rates. The Group currently has £1.35bn of interest rate swaps and cross-currency swaps in place in relation to the

securitisation, with their longevity and amounts matched to the underlying bonds. It also has £150m of short-term interest rates swaps held outside the securitisation against floating rate debt with a maturity date of December 2010. There are no swaps remaining on the Group's balance sheet relating to the proposed property joint venture.

Cash flows

Mitchells & Butlers has financing in place with sufficient headroom to support the operational strategy and maintain an efficient balance sheet. There is a risk however that due to a change in the economic climate or other significant financial impact either that the business might not be able to fulfil the terms of its financial obligations, or that the business would not be able to refinance its unsecured medium-term facility, drawings on which were £383m at the year end, prior to its maturity in November 2011.

In either of these circumstances the Company could reduce its cash costs, primarily by reducing operating costs or reducing its maintenance and expansionary capital expenditure. Alternatively the business could look to other forms of finance such as sale and leaseback, rights issues, or other specific mortgage transactions to meet cash requirements. Clearly there is no guarantee that these other forms of finance will be available to the business at the required time.

Pension funding

Mitchells & Butlers has two defined benefit pension schemes which give rise to various funding risks. There is a risk that the Company's funding of these schemes may be increased or accelerated to meet the expected liabilities within the scheme. The expected liabilities of the schemes are impacted by changes in various economic factors such as life expectancy, asset returns, bond yields and inflation expectations.

Mitchells & Butlers' pension risks have been mitigated by the closure of the defined benefit schemes to new entrants in 2002, (as well as the introduction, with effect from 1 October 2009, of a 2% per annum limit on increases to that proportion of salary which is used to calculate the retirement benefit for current active members). As an alternative, a 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, in addition to the regular service contributions, the Company has made additional contributions of over £200m since demerger in 2003 in order to proactively reduce the deficit.

The pension deficit on the balance sheet had increased to £130m at the year end primarily due to a reduction in corporate bond yields. The next pension scheme triennial valuation for funding purposes is due in March 2010. Discussions have commenced with the Pension Trustees in respect of the various assumptions to be used in the valuation, some of which could vary significantly from the accounting basis, and we therefore anticipate that the valuation deficit may be higher than £130m. A revised funding plan will be agreed with the Trustees once the valuation process is complete.

Property valuation and security

There is a risk that a significant reduction in the Company's profitability or a material change to the basis of valuation of our property portfolio, upon which the Group's borrowing is secured, may adversely impact the Group's borrowing covenants or distributable reserves. This is mitigated by the headroom that we maintain against these risks, for example on the covenants within the securitisation there is a net worth threshold of £500m; and at the year end the headroom on this covenant was £1,092m.

Material litigation

Mitchells & Butlers may be subject to litigation in the ordinary course of its operations. If such litigation resulted in fines, damages or reputational damage to Mitchells & Butlers, its business could be adversely affected.

Mitchells & Butlers has audited procedures in place to safeguard against material litigation, and has insurance in place to cover the more easily identifiable litigation risks.

Other financial risks

Other financial risks are shown in note 20 to the accounts.

Board of Directors and Executive Committee

Information included as at 25 November 2009

Board of Directors



1 Drummond Hall, aged 60

Chairman ^{acd}

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 an operating partner of Duke Street Capital, a director of Burton's Holdings Limited and a non-executive director of WH Smith plc. He was a non-executive director of Taylor Nelson Sofres plc until 21 November 2008.

2 Adam Fowle, aged 50

Chief Executive ^{de}

Appointed Chief Executive on 3 August 2009 having been Acting Chief Executive since 21 May 2009. He joined the Board as Managing Director Restaurants on 1 October 2007. He has more than 20 years of experience in licensed retailing having joined Mitchells & Butlers in 1984, holding a number of operational and strategic roles. He was also retail director at J Sainsbury plc for two years before rejoining Mitchells & Butlers in 2005 as Business Development Director.

3 Jeremy Townsend, aged 45

Finance Director ^e

Appointed Finance Director in January 2008 having been Deputy Finance Director since June 2005. 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. He is a Fellow of the Institute of Chartered Accountants of England and Wales.

4 Simon Laffin, aged 50

Non-Executive Director ^{abcd}

Appointed a Non-Executive Director on 29 January 2009, he chairs the Audit Committee and was appointed Senior Independent Director with effect from 1 June 2009. He was group chief financial officer of Safeway plc from 1995 to 2004 and assumed additional responsibility as its property director from 2001 to 2004. He is a director of Rasindeck Limited, a non-executive director of Quintain Estates and Development plc, an industrial adviser to CVC Capital Partners and was appointed as a non-executive director of Aegis Group plc on 1 August 2008 where he also chairs the audit committee. He retired as a non-executive director of Northern Rock PLC in December 2008, having joined as part of a new board tasked with restructuring the bank following its liquidity problems.

5 Tony Bates, aged 53

Non-Executive Director ^{abc}

Appointed a Non-Executive Director on 13 October 2009, he is chief operating officer of COLT Telecom Group, having been a member of the board since joining in 2004 as group chief financial officer. Previously he spent 12 years at EMI Group plc where he was group chief financial officer and executive vice president of EMI Recorded Music.

6 Denis Jackson, aged 43

Non-Executive Director ^{abc}

Appointed a Non-Executive Director on 28 August 2009. He joined Salomon Brothers in 1990, which later became part of Citigroup. More recently he was head of EMEA Prime Brokerage Sales in London. He left Citigroup in 2009 but remains a trustee of Citigroup Global Markets Limited Pension and Life Assurance Scheme having been elected in 2008.

7 Sir Tim Lankester, aged 67

Non-Executive Director ^{abcd}

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 Council of the London School of Hygiene and Tropical Medicine, chairman of the board of trustees of the Contemporary Dance Trust Limited and a director of the Conservatoire for Dance and Drama.

8 Ray MacSharry, aged 71

Non-Executive Director ^{abc}

Appointed a Non-Executive Director on 28 August 2009. His previous roles included being a non-executive director of Bank of Ireland plc and Ryanair Holdings plc, having been chairman of Ryanair Ltd before it became public in 1997. He was also chairman of London City Airport, Eircom Group plc and Green Property plc and was appointed to the board of Irish Life & Permanent plc in 2008. Prior to this, he held various ministerial positions in Ireland before taking on the role of Ireland's EU commissioner. These included minister for finance, minister for agriculture and governor of the European Investment Bank.

9 Richard McGuire, aged 43

Non-Executive Director ^{ad}

Appointed a Non-Executive Director on 16 July 2009 as a nominated shareholder representative of Piedmont Inc., an investment vehicle of Joe Lewis. He is president of Tavistock Europe (a company owned by Joe Lewis), chairman of a recently delisted company, Bulgarian Property Developments PLC and a designated member of Pentland Capital Management LLP. He was a managing director in investment banking for Citigroup from 1996 to 2008 having previously worked for HSBC, Martin Currie and Baillie Gifford.

10 Douglas McMahon, aged 44

Non-Executive Director ^a

Appointed a Non-Executive Director on 18 November 2009 as a nominated shareholder representative of Piedmont Inc., an investment vehicle of Joe Lewis. He is a managing director of Tavistock Group and a member of the company's board of directors. He previously served as chairman and chief executive officer of Publicis New York and earlier as executive vice president and general manager of J. Walter Thompson New York. He was also senior vice president and chief marketing officer at CNBC, Consumer News and Business Channel, in charge of global marketing.

11 Sara Weller, aged 48

Non-Executive Director ^{abcd}

Appointed a Non-Executive Director in April 2003, she chairs the Remuneration Committee. She 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, two of whom are Board Directors and seven further members who are detailed below.

12 Chris Edger, aged 45

HR Director ^e

Appointed HR Director in July 2008. Prior to joining the Company he 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. He has a PhD and is a visiting professor at Birmingham City Business School.

13 Bronagh Kennedy, aged 46

Company Secretary & General Counsel ^e

Company Secretary to the Board, 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 handed over her responsibilities in this regard to him when he assumed full responsibility for HR as of 1 January 2009. She was previously employed by Allen & Overy LLP.

14 Adam Martin, aged 46

Marketing & Strategy Director ^e

Appointed Marketing & Strategy Director in 2009. He joined the Bass Group in 1996 becoming Marketing Director of the retail business in 1999 and Marketing Director of Mitchells & Butlers plc from 2003. He was previously employed at Gemini Consulting and Cadbury Limited.

15 Richard Pratt, aged 54

Commercial Director ^e

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 is a director of GS1 UK Limited.

16 Amanda Coldrick, aged 44

Managing Director, Suburban ^e

Appointed to the position of Managing Director, Suburban on 21 September 2009. Previously she was Divisional Director Suburban Pub Restaurants from July 2008, Divisional Director London, Venues and High Street from September 2002 and Divisional Director Locals from October 2000.

17 Roger Moxham, aged 45

Managing Director, Value ^e

Appointed to the position of Managing Director, Value on 21 September 2009 having been Acting Managing Director Locals, Metropolitan and High Street from May 2009. Prior to this he held Divisional Director roles for Locals and City Centre pubs from January 2005 as well as a number of senior operational roles across the Company since joining Mitchells & Butlers in 1986.

18 Kevin Todd, aged 53

Managing Director, City & Country ^e

Appointed Managing Director, City & Country on 21 September 2009 having been Acting Managing Director City Brasseries, Suburban and Country Pub Restaurants from May 2009. Previously he was Divisional Director City Brasseries & Country Pub Restaurants from January 2005. He rejoined the Company in September 2002 as Director & General Manager for the Restaurants businesses, having been a managing director with Volvo UK for over two years. Prior to this he worked within Mitchells & Butlers for 13 years in a number of senior operational roles.

Key

- a – A Non-Executive Director
- b – A member of the Audit Committee
- c – A member of the Remuneration Committee
- d – A member of the Nomination Committee
- e – A member of the Executive 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 statement, 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 processes undertaken to ensure the Committee discharges its responsibilities properly.

Remuneration report, which includes an 'at a glance' overview of Directors' remuneration, detail regarding the composition of the Remuneration Committee and its advisers and the remuneration policy for Executive Directors. 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.

In this section:

- 31** Directors' report
- 35** Corporate governance statement
- 40** Audit Committee report
- 42** Remuneration report
- 56** Independent auditors' report to the members of Mitchells & Butlers plc

Directors' report



Bronagh Kennedy
Company Secretary

The Directors present their report for the year ended 26 September 2009. 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 4 to 27, including the Chief Executive's review and the Financial review and Corporate governance statement (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 20 to the financial statements. Together these sections include information about the Group's business, its financial performance during the year, likely developments and the principal risks and uncertainties associated with the Group's business. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual report and the Company undertakes no obligation to update these forward-looking statements.

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

Principal activities

Mitchells & Butlers is the leading operator of managed pubs and Pub Restaurants, with an estate of 1,927 sites, including 46 leased and franchised sites, as at 26 September 2009 located in the UK, and with 43 Pub Restaurants in Germany.

Share capital

The Company's authorised and issued ordinary share capital as at 26 September 2009 comprised a single class of ordinary shares of which 407,404,004 shares were in issue and listed on the London Stock Exchange. As at 27 September 2008, the Company had 404,210,379 ordinary shares of 8¹³/₂₄p in issue. Details of movements in the issued share capital can be found in note 23 to the financial statements on page 89. Each share carries the right to one vote at general meetings of the Company. All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfer of shares in the Company other than those which may from time to time be applicable under existing laws and regulations (for example under the Market Abuse Directive). At the year end, 429 shares were held in Treasury and the Company's employee share trusts held 1,329,600 shares.

Shareholders passed a resolution at the 2009 AGM to permit the Directors to undertake market purchases of up to 40,490,000 of the Company's shares. This authority will expire at the earlier of the 2010 AGM or 29 March 2010. No shares have been purchased by the Company during the year.

Shareholders passed a resolution at the 2009 AGM to permit the Directors to allot shares up to a nominal value of £11,528,000. This authority will expire at the earlier of the 2010 AGM or 29 March 2010. Since the AGM, shares with a nominal value of £153,613 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.

The Board's responsibilities include:

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

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www.mbplc.com/investors

Directors' report

continued

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are set out in the Remuneration report on page 55.

Final dividend

No final dividend will be paid for the year ended 26 September 2009 (2008 nil). No interim dividend was paid during the year (2008 4.55p per share).

Interests in voting rights

As at 25 November 2009 the Company had been notified, under Disclosure and Transparency Rule 5, of the following significant holdings of voting rights (3% or more) in its shares:

	Ordinary shares	% of capital*	Nature of holding
Piedmont Inc.	93,047,373	22.83%	Direct interest
Elpida Group Ltd	71,694,429	17.59%	Direct interest
Axa S.A.	20,462,125	5.02%	Direct and indirect interest
Standard Life Investments	19,710,009	4.84%	Direct and indirect interest
BNP Paribas Arbitrage Snc	17,707,011	4.34%	Direct interest
Legal & General	16,042,776	3.94%	Direct interest
MF Global UK Limited	13,074,057	3.21%	Direct interest

* Using the total voting rights figure announced to the London Stock Exchange on 30 October 2009 of 407,545,542

Directors

Details of the Directors as at 25 November 2009 and their biographies are shown on page 28.

During the year, the following changes took place:

Director	Leaving date	Appointment date
Aaron Brown	08/10/08	
Tim Smalley	08/10/08	
George Fairweather	31/12/08	
Mike Bramley	30/04/09	
Tim Clarke	21/05/09	
Simon Laffin		29/01/09
Richard McGuire		16/07/09
Denis Jackson		28/08/09
Ray MacSharry		28/08/09

Following the year end Tony Bates and Douglas McMahon were appointed as Non-Executive Directors on 13 October 2009 and 18 November 2009 respectively. 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 ('AGM'). Directors who wish to continue in their role must submit themselves for re-election at an AGM at least every three years. In addition such further Directors (if any) must retire by rotation to bring the number retiring by rotation up to one-third of the number of Directors in office at the date of the notice of meeting. Any Director appointed during the year will not be counted in determining the one-third who should stand for re-election by rotation. There were no payments made during the year as compensation for loss of office.

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

Directors' indemnity

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

Conflicts of interest

The Company's Articles of Association 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. The Board believes that the systems it has in place for reporting and considering Situational Conflicts continue to operate effectively.

Related party transactions

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

Essential contracts or arrangements

The Company is required to disclose any contractual or other arrangements which it considers are essential to its business. The Company has a number of contractual agreements with suppliers in support of its business activities. However, whilst the loss of some of these arrangements may cause temporary disruption, none are considered to be essential to the business of Mitchells & Butlers.

Change of control provisions

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:

- an unsecured term and revolving facilities agreement as described more fully on page 84; and
- three interest rate swap agreements with a total initial notional amount of £150m as described more fully on page 86.

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.

The trustee of the Mitchells & Butlers Share Incentive Plan will invite participants on whose behalf it holds shares to direct it how to vote in respect of those shares, and if there is an offer for the shares or other transaction which would lead to a change of control of the Company, participants may direct it to accept the offer or agree to the transaction. The trustee of the Mitchells & Butlers Employee

Benefit Trust may, having consulted with the Company, vote or abstain from voting any shares it holds or accept or reject an offer relating to shares in any way it sees fit, and it may take all or any of the following matters into account: the long-term interests of beneficiaries, the non-financial interests of beneficiaries, the interests of beneficiaries in their capacity as employees or former employees, the interests of future beneficiaries and considerations of a local, moral, ethical, environmental or social nature.

Employees

The Group employed an average of 42,023 people in 2009 (2008 40,774). Details of the Group's employment policies are shown on pages 11 to 18 of the OFR and a more detailed account can be found in our separately published Corporate Social Responsibility Review 2009 at www.mbplc.com/csreview

Employee engagement

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the Sharesave Plan and the Share Incentive Plan, and it also operates two plans on a selective basis, which are the Performance Restricted Share Plan and the Short-Term Deferred Incentive Plan. Further details on the selective plans are included within the Remuneration report on pages 42 to 55.

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 26 September 2009, the position under the '5% in 10 years' limit for discretionary plans was that shares equivalent to 3.97% 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 4.57% 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 seeks to comply with relevant health and safety legislation. Details are included on pages 16 and 17 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 well-being of others. A summary of the Company's approach to these issues is set out on pages 14 to 18 of the OFR and a more detailed account can be found in our separately published Corporate Social Responsibility Review 2009 at www.mbplc.com/csreview

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 38 days (2008 39 days).

Charitable donations and charitable activity

The Company continues to support community initiatives and charitable causes, full details of which are given on pages 14 to 18 of the OFR.

Employees and customers with disabilities

The Company is committed to providing equal opportunity to all employees and equality of service provision to our disabled customers without discrimination and we are supportive of the employment and advancement of disabled and disadvantaged persons.

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 2010 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 57 to 106 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.

Funding and liquidity risk

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

The current funding arrangements of the Group consist primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and the medium-term funding facility drawn by Mitchells & Butlers Retail (No. 2) Ltd. Further information regarding these arrangements is included in note 19. 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.

Additional information for shareholders

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

Annual General Meeting

The notice convening the Annual General Meeting to be held at 11am on Thursday 28 January 2010 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 authorise the Directors to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. Following the implementation of the final provisions of the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009, resolutions are also proposed to authorise the calling of general meetings (other than annual general meetings) on 14 clear days' notice and to make certain amendments to the Company's Articles of Association to bring them in line with the Companies Act 2006. Full details of these resolutions are provided

in the shareholder circular. If you would like to register any questions you may have in advance of the AGM you can do so at www.mbplc.com/agm2010qs.com

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

Mitchells & Butlers plc

Company registration number 4551498

25 November 2009

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 UK 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 UK law. Further, they have elected to prepare the Company financial statements in accordance with UK accounting standards ('UK GAAP') and applicable UK law.

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, subject to any material departures disclosed and explained in the financial statements; 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 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 Annual report and financial statements comply with the Companies Act 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.

Each of the Directors, the names and functions of whom are set out on page 28, confirms that to the best of his or her knowledge they have complied with the above requirements in preparing the financial statements in accordance with applicable accounting standards and that the financial statements give a true and fair view of the assets, liabilities and financial position and profit of the Group and the Company and of the Group's income statement for that period. In addition each of the Directors confirms that the management report represented by 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.

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 418(2) of the Companies Act 2006) 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 2009

Corporate governance statement

As at 25 November 2009



Drummond Hall
Chairman
(until 30 November 2009)

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 of June 2008 (the 'Combined Code') which is available online at www.frc.org.uk. The Board considers that the Company has complied throughout the year ended 26 September 2009 with all the provisions of the Combined Code except, from time to time only, those in respect of Board composition and balance (A.3.2), certain Board appointments as detailed below (A.4.6), the Senior Independent Director (A.1.3, A.3.3, A.6.1), attendance of the chairman of the Audit Committee at the Annual General Meeting (D.2.3) constitution of the Audit Committee (C.3.1), the Remuneration Committee (B.2.1) and the Nomination Committee (A.4.1) as described below. The information required by Disclosure and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 40 to 41 and the information required by DTR 7.2 is set out in this Corporate governance statement, other than that required under DTR 7.2.6 which is set out in the Directors' report on pages 31 to 34.

Board composition

At the start of FY 2009, the Board comprised the Non-Executive Chairman, four Executive Directors, three independent Non-Executive Directors and two non-independent Non-Executive Directors.

During the year various changes were made to the composition of the Board. Aaron Brown and Tim Smalley who were appointed as representatives of the then largest shareholder, Violet Capital Group Ltd, stepped down from the Board on 8 October 2008 upon the disposal by Violet Capital Group Ltd of its significant shareholding.

On 31 December 2008, George Fairweather, an independent Non-Executive Director and chairman of the Audit Committee, resigned. Simon Laffin was appointed as an independent Non-Executive Director and chairman of the Audit Committee on 29 January 2009 and was subsequently appointed as Senior Independent Director with effect from 1 June 2009.

Mike Bramley, Managing Director, Pubs & Bars retired from the Board on 30 April 2009. On 21 May 2009 Tim Clarke, then Chief Executive, left the Group by mutual agreement and Adam Fowle became Acting Chief Executive on the same day. Subsequent to Tim Clarke's departure, an external search company was appointed to search for candidates for the position of Chief Executive. The results of the search were presented to the Nomination Committee. Having considered the results of the search and the Company's existing succession plans, the Nomination Committee recommended the appointment of Adam Fowle as Chief Executive to the Board, recognising his considerable business knowledge and experience and having objectively benchmarked his qualities against other external candidates; Adam was then confirmed as Chief Executive on 3 August 2009.

Richard McGuire was appointed to the Board on 16 July 2009 as a representative of Piedmont Inc., the Company's largest shareholder. Because of his association with Piedmont Inc., the Board concluded that Richard should not be determined independent. Although an external agency would normally be used for non-executive appointments, the Nomination Committee recognised the request for representation on the Board by the

Corporate governance statement

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.

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

Company's major shareholder and did not engage an external agency in respect of this appointment. However following a formal, rigorous and transparent review of the prior experience and skills of Richard McGuire, which revealed his financial expertise, the Nomination Committee recommended his appointment to the Board as a Non-Executive Director. Richard McGuire is a member of the Nomination Committee but does not sit on the Audit or Remuneration Committees.

Denis Jackson and Ray MacSharry were appointed to the Board as independent Non-Executive Directors on 28 August 2009 following consultation with major shareholders. No external agency search was carried out in respect of either of these appointments. However, a formal evaluation of Mr Jackson against the requirements of the role of Non-Executive Director and the complementary skills and experience held by other Board members was conducted by an external agency. Having made due enquiry of them and having received their written assurances in this regard, the Board was satisfied that Denis Jackson and Ray MacSharry were independent on appointment. However, when the independence of each of the Non-Executive Directors was reviewed by a Sub Committee of the Board on 25 November 2009, the Sub Committee was unable to reach a conclusion regarding the independence of Denis Jackson and Ray MacSharry[†].

Following the year end Tony Bates was appointed to the Board as an independent Non-Executive Director on 13 October 2009. Tony was recruited with the assistance of an external agency. Tony Bates, Denis Jackson and Ray MacSharry were appointed as members of the Audit and Remuneration Committees on 16 October 2009. Following the year end Piedmont Inc. exercised its right to appoint an additional representative Director, Douglas McMahon, to the Board. Again, as this was pursuant to a request from the Company's major shareholder an external agency was not engaged. Douglas McMahon's appointment as a non-independent Non-Executive Director was recommended to the Board by the Nomination Committee. Douglas McMahon does not sit on any Board committees.

On 25 November 2009 the Board consisted of the Non-Executive Chairman, two Executive Directors and eight Non-Executive Directors.

For the reason set out above[†], it has not been possible for the Board to confirm whether the Company has complied with section A.3.2 of the Combined Code in relation to at least half of the Board comprising independent Non-Executive Directors.

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 2009 there were nine scheduled Board meetings including a two day off-site meeting which considered the Group's strategy and a further nine Board meetings which were called at short notice. George Fairweather was unable to attend one scheduled Board meeting, Sir Tim Lankester and Mike Bramley were each unable to attend one of the Board meetings called at short notice and Sara Weller was unable to attend two of these. Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that

meeting and were able to discuss issues arising directly with the Chairman and Chief Executive. There are nine Board meetings currently planned for FY 2010.

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 each of the newly appointed Directors, tailored to individual requirements and including guidance on requirements of, and Directors' duties in connection with, the Combined Code and the Companies Act 2006 as well as other relevant legislation.

Directors

The following were Directors of the Company during the year:

		Date appointed	Date left
Tim Clarke	Chief Executive	10/02/03	21/05/09
Mike Bramley	Managing Director, Pubs & Bars	15/04/03	30/04/09
George Fairweather	Independent Non-Executive Director	15/04/03	31/12/08
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	Chief Executive (from 03/08/09)	01/10/07	
Jeremy Townsend	Finance Director	31/01/08	
Aaron Brown	Non-independent Non-Executive Director	20/06/08	08/10/08
Tim Smalley	Non-independent Non-Executive Director	20/06/08	08/10/08
Simon Laffin	Senior Independent Non-Executive Director	29/01/09	
Richard McGuire	Non-independent Non-Executive Director	16/07/09	
Denis Jackson*	Independent Non-Executive Director	28/08/09	
Ray MacSharry*	Independent Non-Executive Director	28/08/09	

* Determined independent on appointment

Following the year end Tony Bates was appointed as an independent Non-Executive Director on 13 October 2009 and Douglas McMahon was appointed as a non-independent Non-Executive Director on 18 November 2009. The biographical details of Board Directors as at 25 November 2009 are set out on page 28 and these include their main commitments outside the Company.

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

Adam Fowle and Sara Weller will retire by rotation at the AGM on 28 January 2010; Adam Fowle will stand for reappointment, Sara Weller will not be offering herself for reappointment, however Sara will be attending the 2010 AGM and will retire at its conclusion. Tony Bates, Denis Jackson, Simon Laffin, Ray MacSharry, Richard McGuire and Douglas McMahon, having been appointed since the last AGM, will stand for reappointment at the 2010 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 51 and on the Company's website. The Chairman and the Non-Executive Directors have letters of appointment which are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

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

Adam Fowle is the Chief Executive and has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group. Adam was appointed Acting Chief Executive on 21 May 2009 following Tim Clarke's departure and was confirmed as Chief Executive on 3 August 2009.

Senior Independent Director

Simon Laffin was appointed Senior Independent Director on 1 June 2009. Before that date there had not been a Senior Independent Director in place since Drummond Hall relinquished the position upon his appointment as Chairman of the Board in June 2008. The Board considered it appropriate to allow sufficient time for Simon Laffin to fully familiarise himself with the business before considering him for the position of Senior Independent Director. Despite there not being a Senior Independent Director during the period there has at all times been a strong representation of independent Non-Executive Directors on the Board available to meet with shareholders and no meetings were requested with the Senior Independent Director during the year.

Non-Executive Directors

The Company has experienced Non-Executive Directors. In addition to the Chairman, who was independent upon his appointment, the Board considers Tony Bates, Simon Laffin, Sir Tim Lankester and Sara Weller to be 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. As noted above, a Sub Committee of the Board was unable to reach a conclusion regarding the independence of Denis Jackson and Ray MacSharry on 25 November 2009. Richard McGuire was appointed as a Non-Executive Director on 16 July 2009 as a representative of the Company's largest shareholder, Piedmont Inc., and is therefore not regarded as independent. Douglas McMahon was also appointed as a representative of Piedmont Inc. on 18 November 2009 and is not regarded as independent. In addition until 8 October 2008 there were two other 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 49, the 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 and of members of the Board's Committees are formally considered on an annual basis and are also considered throughout the year.

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**

Simon Laffin is chairman of the Audit Committee; Simon has chaired the Audit Committee since his appointment as an independent Non-Executive Director on 29 January 2009. George Fairweather chaired the Audit Committee until he resigned from the Board on 31 December 2008. The other Audit Committee members during the year were Sara Weller and Sir Tim Lankester, both independent Non-Executive Directors. Following the year end on 16 October 2009 three further independent Non-Executive Directors were appointed as members of the Committee, namely Tony Bates, Denis Jackson and Ray MacSharry. Since 16 October 2009 the Audit Committee has consisted of Simon Laffin and five Non-Executive Directors. The Chairman of the Board, the Chief Executive and the Finance Director attend at the invitation of the Committee's Chairman. During FY 2009 the Committee met five times.

Further details about the Committee are included in the Audit Committee report on pages 40 and 41.

Remuneration Committee**

The Remuneration Committee is chaired by Sara Weller, an independent Non-Executive Director. Drummond Hall, Chairman, and Sir Tim Lankester, an independent Non-Executive Director, have been members throughout the year. George Fairweather, a former independent Non-Executive Director was a member of the Remuneration Committee until his resignation from the Board on 31 December 2008 and Simon Laffin was appointed as a member of the Remuneration Committee on 29 January 2009. For the four week period between George Fairweather's resignation and the appointment of Simon Laffin, the Company did not comply with the provision of the Combined Code in respect of establishing a Remuneration Committee of at least three independent Non-Executive Directors. Following the year end on 16 October

* Subsequent to the date of this report the Directors standing for reappointment have changed. Refer to the Notice of Annual General Meeting for the up to date AGM business.

** Despite a Sub Committee of the Board being unable to reach a conclusion regarding the independence of Denis Jackson and Ray MacSharry, the Board can confirm that this has not further impacted the Company's compliance with the Combined Code for the year ended 26 September 2009 in relation to the constitution of either the Audit or Remuneration Committees.

2009 Tony Bates, Denis Jackson and Ray MacSharry were appointed as members of the Remuneration Committee. Since 16 October 2009 the Remuneration Committee has consisted of Sara Weller, chairman of the Committee, five other Non-Executive Directors and the Chairman. This Committee met 11 times during FY 2009.

Further details about the Remuneration Committee are included in the Remuneration report on pages 42 to 44.

Nomination Committee

Drummond Hall, Chairman, chairs the Nomination Committee. The Chief Executive is a member of the Committee; Tim Clarke was a member until his departure from the Board on 21 May 2009, Adam Fowle joined the Committee on 3 August 2009. Sir Tim Lankester and Sara Weller, both independent Non-Executive Directors, have been members of the Nomination Committee throughout the year. George Fairweather, a former independent Non-Executive Director, was a member until his resignation from the Board on 31 December 2008 and Simon Laffin was appointed a member of the Nomination Committee on 29 January 2009. Following the year end Richard McGuire, a non-independent Non-Executive Director, was appointed as a member of the Nomination Committee on 16 October 2009. For the four week period between George Fairweather's resignation and the appointment of Simon Laffin, and between 16 October 2009 and the date of this report, the Company did not comply with the provision of the Combined Code in respect of the Nomination Committee consisting of a majority of independent Non-Executive Directors. Since 16 October 2009 the Nomination Committee has consisted of the Chairman, the Chief Executive, three of the independent Non-Executive Directors and one of the non-independent Non-Executive Directors. The Company Secretary is secretary to this Committee. A copy of the terms of reference for this Committee is publicly available within the Investor section of the Company's website. 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 10 times during the year to consider *inter alia* succession planning and to recommend the appointment of Adam Fowle as acting and then Chief Executive. It also recommended the appointments of Denis Jackson, Ray MacSharry and Simon Laffin as independent Non-Executive Directors and the appointment of Simon Laffin as Senior Independent 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 financial experience of the Board and, accordingly, it recommended the appointment of Richard McGuire as a non-independent Non-Executive Director. Following the year end the Committee also recommended the appointment of Tony Bates as an independent Non-Executive Director and the appointment of Douglas McMahon as a non-independent Non-Executive Director pursuant to the appointment rights contained within a deed entered into with Piedmont Inc.

There was full attendance at each meeting except that Simon Laffin did not attend the meeting to consider his appointment as Senior Independent Director; Tim Clarke did not attend the meeting to consider termination of his appointment; George Fairweather was unable to attend one scheduled meeting; and Simon Laffin was unable to attend one meeting which was called at short notice. Where a Director was unable to attend a meeting and the meeting did not relate to their own appointment, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising directly with the chair of the Committee and the Company Secretary.

General Purposes Committee

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

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 FSA Listing Rules. It comprises the Chief Executive, the Finance Director, the Director of Corporate Affairs and the Company Secretary & General Counsel. There was nothing for the Committee to consider in the year and therefore it did not meet.

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 28 and 29.

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 & General Counsel, 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.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for preparation of consolidated accounts. These systems include policies and procedures to facilitate the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') or UK Generally Accepted Accounting Principles, as appropriate, and that require reported data to be reviewed and reconciled.

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, accounting and reporting 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 26 September 2009. 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 with guidance from an external independent body, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved.

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company formally updates the market on its financial performance at least five times a year, at the 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 content of these updates is posted and webcast on the Company's website, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of meetings with its 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 Senior Independent Director and other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with major 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. Given the timing of the resignation of George Fairweather and the appointment of Simon Laffin on 29 January 2009 there was no chair of the Audit Committee in attendance at the 2009 AGM. However, the Finance Director and each of the other Board members were in attendance to answer any questions that would usually be answered by the chair of the Audit Committee.

Board effectiveness evaluation

Notwithstanding the level of Board changes during FY 2009 the Board agreed that it would be appropriate to carry out an evaluation for FY 2009. 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.

The process included the completion of a detailed questionnaire by each Board Director* who served during the year 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. A separate evaluation of both the independence and continuing performance of Sir Tim Lankester and Sara Weller was undertaken given that both Directors have now served six years on the Board. The evaluation concluded that they continue to remain independent, perform to a very high level and that their longevity on the Board is a benefit to the Board as a whole; the evaluation also noted that neither Sir Tim Lankester nor Sara Weller had served for six years concurrently with the Executive Directors who had joined the Board in October 2007 and January 2008. The output was compiled into a report which was subsequently discussed between the Chairman and the rest of the Board.

Non-independent Non-Executive Director appointments were assessed as part of the Board's overall requirements. 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. The significant time contribution made by the Non-Executive Directors during the year was noted, particularly given the number of Board and Committee meetings held at short notice. The evaluation highlighted the individual competencies of each of the Directors.

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 the Senior Independent Director, to appraise the Chairman's performance. The outcome of this appraisal was positive and confirmed that he devoted sufficient time to his role.

An external evaluator was used as part of the evaluation process for FY 2008 and is intended to be used again for the evaluation for FY 2010.

* Tony Bates, Denis Jackson, Ray MacSharry and Richard McGuire did not participate as they had only recently joined the Board at the time the evaluation was carried out.



Simon Laffin
Chairman of the Audit Committee

The Company's Audit Committee (the 'Committee') has, with the exception of the matter described below in respect of its composition, 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 Investor 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 Internal Audit function, known as Group Assurance;
- 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 all corporate employees which is consistent with the Company's overall statement of business ethics.

Audit Committee composition

The Committee is chaired by Simon Laffin, who was appointed as an independent Non-Executive Director and chairman of the Committee on 29 January 2009, and, as a qualified accountant and the former chief financial officer of a then FTSE 100 company, has current and relevant financial experience and is considered to be the Committee's financial expert. The previous chairman of the Committee, George Fairweather, resigned as a Director with effect from 31 December 2008. He, as a Chartered Accountant and the finance director of a former FTSE 100 company, had current and relevant financial experience and was considered to be the Committee's financial expert. Accordingly for the four week period between George Fairweather's resignation and the appointment of Simon Laffin, the Company did not comply with the provisions of the Combined Code in respect of establishing an Audit Committee of at least three members, one of whom should have recent and relevant financial experience. During this month however no Committee meetings were held.

The Audit Committee's responsibilities include:

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



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The Committee's other members are currently Tony Bates, Denis Jackson, Ray MacSharry, Sara Weller and Sir Tim Lankester; Tony Bates, Denis Jackson and Ray MacSharry were appointed as members following the year end on 16 October 2009.

The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board, Drummond Hall, 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.

Audit Committee frequency

The Committee meets at least four times a year. During FY 2009 five meetings of the Committee were held and all members attended each of the meetings during their periods of membership.

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 resignation of the Director of Group Assurance & Risk and the appointment of a senior Deloitte employee as an interim replacement;
- 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;
- 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.

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, subject to a *de minimus* limit, by the Committee or its chairman. The pre-approved services may be summarised as follows:

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

Approved by the Board

Simon Laffin

Chairman of the Audit Committee

25 November 2009



Sara Weller
Chairman of the
Remuneration Committee

Remuneration report

This report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. It complies with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, 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 26 September 2009.** This report will be put to shareholders for approval at the forthcoming AGM to be held on 28 January 2010.

The following report of the Committee provides an explanation of the Committee's work and of the remuneration arrangements for Directors. It is divided into the following sections:

- overview of Executive Directors' remuneration;
- committee remit and membership;
- remuneration policy for Executive Directors;
- changes to Executive Directors' remuneration;
- Executive Directors' remuneration;
- Non-Executive Directors' remuneration; and
- supplementary information on Directors' remuneration.

Overview of Executive Directors' remuneration FY 2010 structure

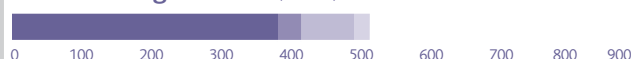
Element	Purpose	Delivery	Summary details
Base salary	To reflect the market value of the role and individual performance.	Payable in cash. Pensionable.	Reviewed annually, with any increases normally effective from 1 January.
Annual Performance Bonus (cash)	To encourage and reward the achievement of Group financial targets and strategic business objectives.	Up to 50% of the annual performance bonus is payable in cash. Non pensionable.	Earnings potential up to a maximum of 100% of base salary, of which 75% is based on the financial performance of the Group and 25% on achievement of strategic business objectives.
Deferred Share Award ('STDIP')	To align annual performance with shareholder value and provide an element of retention.	At least 50% of the annual performance bonus will normally be awarded as a deferred bonus share award. Non pensionable.	At the discretion of the Committee, at least 50% of the annual bonus will normally be deferred and released in equal tranches 12 and 24 months after deferral. Dividend accrued shares may be awarded on vested shares.
Long-Term Incentive ('PRSP')	To reward the delivery of mean or better shareholder return ('TSR') and increasing shareholder value (Adjusted Earnings per Share ('EPS')).	Annual award of nominal priced options which vest after three years, subject to performance conditions. Non pensionable.	Discretionary award of up to 140% of salary. Participation is reviewed annually. TSR and EPS outcome over the three year performance period determines the number of shares which vest. Dividend accrued shares may be awarded on vested shares.
Pension (or cash allowance)	To provide a market competitive retirement benefit.	Deferred cash (i.e. pension) or cash allowance payable four weekly.	Contributory defined contribution scheme or cash allowance in lieu of Company pension contributions.
Other benefits^d	To provide market competitive benefits.	Benefit in kind or cash allowance. Non pensionable.	Benefits include private medical insurance, life assurance and use of a Company owned vehicle or cash equivalent.
Total remuneration			

Composition of Executive Directors' remuneration FY 2009

There was no annual cash bonus or deferred share award in respect of FY 2009.

Using target or projected value calculations, base salary accounts for circa 45% of an Executive Director's earnings.

Actual earnings FY 2009 (£000)



Potential on-target earnings FY 2009 (£000)



■ Base salary
■ Bonus
■ Long-Term Incentive (PRSP)
■ Deferred Share Award (STDIP)
■ Pension (or cash allowance)
■ Other benefits

Base salaries

The base salaries of Executive Directors who were in post as at 27 September 2008 and 26 September 2009, were:

Director	26/09/09 £	27/09/08 £
Adam Fowle	550,000 ^a	350,000
Jeremy Townsend	350,000 ^b	310,000

The base salary shown throughout this report is the salary before any salary sacrifice in respect of the Plan. Salary sacrifice is explained and the Plan defined in the section entitled 'Pension (or cash allowance)' on page 48.

^a Adam Fowle's base salary was increased on 12 April 2009 to £405,000 per annum on his appointment as Chief Operating Officer, at which time he assumed entire responsibility for the operational leadership of the Company where previously he was jointly responsible with Mike Bramley. Adam's base salary was subsequently increased to £550,000 per annum from 3 August 2009, on his appointment as Chief Executive. From 21 May 2009 to 2 August 2009, whilst Acting Chief Executive, Adam received a pro rata, non pensionable, salary supplement of £100,000 per annum.

^b An exceptional base salary increase of 12.9% was awarded to Jeremy Townsend, effective from 1 January 2009. Jeremy was first appointed as Finance Director in January 2008. At the time of his appointment the Committee decided to set his salary broadly in line with the lower quartile salary range. Subsequently, the Committee concluded that it was appropriate to increase his salary to a value which more closely reflected his contribution but which remains below the median market rate.

The Committee has determined that, save for any promotional increase, no base salary increase will be awarded to Executive Directors or to other members of the Executive Committee before 1 January 2011.

Normally received or awarded	Alignment with strategy	Adam Fowle		Jeremy Townsend	
		2009 £000	2008 £000	2009 £000	2008 ^a £000
Paid on a four weekly basis throughout the year.	Provides a sound basis on which to attract and retain executives of a high calibre.	422 ^b	349	339 ^b	197
Normally paid in December following the reporting financial year end.	Provides a direct link between operational performance and reward.	–	30	–	5
Normally awarded in November or December following the reporting financial year end.	Ensures that Directors' and shareholders' interests are closely aligned.	–	31	–	5
Normally awarded in November or December following the reporting financial year end.	Total shareholder return against an industry specific comparator group rewards sectoral outperformance. EPS growth provides alignment with shareholders' interests.	39 ^c	62	27 ^c	42
Received or accrued during the year.	Provides a sound basis on which to attract and retain executives of a high calibre.	71	70	68	41
Received during the year.		29	27	21	14
		561	569	455	304

^a From 31 January 2008, the date of his appointment as an Executive Director

^b Actual earnings in FY 2009 including, for Adam Fowle, £100,000 pro rata, non pensionable salary supplement as detailed above

^c Assuming that shares, including an estimated value in respect of Dividend Accrued Shares, due to vest on 27 November 2009 in respect of performance to 26 September 2009 were exercised at 262.6p

^d Inclusive of Free Shares awarded under the Share Incentive Plan details of which are set out on pages 48 and 54

Committee remit and membership

The Committee is responsible for determining policy on remuneration, including pension and, should it be necessary, compensation payments for the Executive Directors, other members of the Executive Committee and certain senior executives. The Committee is also responsible for reviewing the Chairman's fees. The Committee is committed to the principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and achievement. It determines the actual remuneration of the Executive Directors and reviews proposals in respect of other members of the Executive Committee and certain senior executives. The Committee takes into account a range of factors, including remuneration policy, incentive arrangements and percentage increases awarded across the Group. With the assistance of its advisers the Committee monitors potential remuneration outcomes in respect of Executive Directors.

The Committee also considers organisational issues, management resource, development and education programmes for senior executives, including Directors.

The Committee's terms of reference and those of their advisers are available in the Investor section of the Company's website www.mbplc.com/investors under corporate governance.

In the reporting year the Committee consisted of the following Non-Executive Directors:

- Sara Weller (chairman)
- Drummond Hall
- George Fairweather (until 31 December 2008)
- Simon Laffin (from 29 January 2009)
- Sir Tim Lankester

Tony Bates, Denis Jackson and Ray MacSharry were appointed as members of the Committee from 16 October 2009.

Bronagh Kennedy (Company Secretary & General Counsel) attended each meeting as secretary to the Committee.

No member of the Committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the Committee.

At the invitation of the chairman the following members of management attended the Committee:

Chief Executive	Tim Clarke (until 21 May 2009) Adam Fowle (from 21 May 2009)
HR Director	Chris Edger
Director of Compensation & Benefits	Sheila Mellish

No Executive Director attended on matters directly concerning their own remuneration. The Company Chairman does not attend when his fee is under review.

The Committee received external advice during the year from remuneration consultants Deloitte LLP ('Deloitte') as well as from Allen & Overy LLP, the Company's general legal advisers. Deloitte was independently appointed by the Committee as its adviser from May 2007. During the year Deloitte provided other tax services to the Company and provided advice to the Company on Non-Executive Directors' fees but did not provide advice on executive remuneration matters other than to the Committee.

There were 11 meetings of the Committee held during the year. Sir Tim Lankester was 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.

Remuneration policy for Executive Directors

It is intended that the remuneration policy framework as set out below, which has applied throughout the reporting year, will continue to apply for FY 2010:

- 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; pay and benefits will be assessed by reference to market practice in the FTSE All-Share index, as well as relevant sector specific comparators;
- there will be an appropriate balance between fixed and variable reward; and
- base 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.

The Committee has reaffirmed that:

- shares arising from share schemes should not normally be sold until the minimum level of ownership required to satisfy the mandatory shareholding requirement has been satisfied; and
- Executive Directors may accept one external non-executive appointment with the Company's prior approval and as long as this is not likely to lead to substantial conflict. Fees received may be retained by the Director.

In considering remuneration policy, the Committee has been and continues to be mindful of the need to ensure that no individual element of remuneration provides an opportunity for excessive reward. The Committee believes that this is a prudent approach to the overall management of Executive Directors' remuneration.

Changes to Executive Directors' remuneration

The current Executive Directors' remuneration structure was introduced following shareholder approval at the 2006 AGM. The Committee has made certain adjustments since that time for example, by introducing phased termination arrangements into Executive Directors' service agreements and reducing the most recent long-term incentive award level in combination with a lowering of the vesting target.

The Committee, supported by Deloitte, conducted a review of Executive Directors' remuneration during the year. The Committee concluded that, although the incentive arrangements put in place previously had been successful in driving the operational performance of the Company and had aligned Executive Directors' interests with those of shareholders, internal and external circumstances had changed such that the arrangements were no longer consistent with emerging best practice. Specifically it was noted that there was a degree of complexity in relation to both the deferred element of the annual incentive plan and the capital return measure under the long-term performance share plan.

The Committee believes that the changes, as summarised below, address these points whilst at the same time reducing the amount of available reward to a level which is more in keeping with the size of the Company.

- **Amount.** The level of incentive opportunity has been reduced. For the annual bonus, the maximum opportunity has been reduced from 200% of salary (bonus with potential match) to 100% of salary (through removal of the matching element). For the long-term performance share plan, the award has been reduced from 177% of salary to 140% of salary.
- **Simplicity.** The Committee has reduced complexity in two ways. Firstly, the matching element under the annual bonus scheme has been removed. Also, under the long-term performance share plan Adjusted Earnings per Share ('EPS') will replace the previous measure of excess of cash return on cash capital employed ('CROCCE') versus weighted average cost of capital ('WACC'). Profit before Tax (pre exceptionals) ('PBT') replaces EPS as the primary financial performance measure under the short-term bonus plan to ensure that bonus achievement is aligned more directly with operational performance and to improve transparency and line of sight for participants.

- **Shareholder alignment.** The revised structure continues to place an emphasis on shareholder alignment. Whilst the matching element applying to any annual bonus has been removed, partial deferral of the bonus into shares (vesting at 12 and 24 months) and mandatory shareholding requirements will continue to apply. Under the long-term performance share plan, to reduce the potential volatility in vesting levels for only small differences in TSR performance, the TSR element will be measured against an index and subject to a 'floor'; if there has been no share price appreciation over the relevant period, the TSR element of awards will not be capable of exercise, irrespective of relative outperformance. EPS growth targets relative to RPI will be set and will also be subject to a 'floor'.

A clawback provision has also been introduced such that any future Bonus Share award may, at the discretion of the Committee, be reduced or lapsed should it subsequently be confirmed that the original results on which the bonus was calculated contained a material misstatement of the Company's financial results.

A table showing the FY 2009 and FY 2010 arrangements, with changes highlighted for ease of reference, is set out below.

Element	FY 2009	FY 2010
Short term (annual bonus)		
Amount	Maximum 200% of salary.	Maximum 100% of salary.
Structure	Up to 50% of bonus payable in cash. At least 50% of bonus deferred into shares. Deferred shares matched 1:1, subject to a three year EPS growth performance condition. Dividend accrued shares awarded in respect of deferred shares.	Up to 50% of bonus payable in cash. At least 50% of bonus deferred into shares. Deferred shares vest at 12 and 24 months with no match. Dividend accrued shares awarded in respect of deferred shares.
Financial underpin	Cash flow target is included as a condition precedent and as a Group business objective.	Cash flow target is included as a condition precedent alongside a revised set of business objectives.
Primary financial performance measure	Adjusted Earnings per Share ('EPS'). 75% of the maximum bonus is set against EPS with any payment subject to achievement of the financial underpin.	Profit before Tax (pre exceptionals) ('PBT'). 75% of the maximum bonus is set against PBT with any payment subject to achievement of the financial underpin.
Business objectives	25% of the maximum bonus is set against Group and personal objectives with any payment subject to achievement of the financial underpin.	25% of the maximum bonus is set against business objectives with any payment subject to achievement of the financial underpin.
Long term (performance shares)		
Amount	Maximum 177% of salary. (reduced to 140% at most recent award).	Maximum 140% of salary.
Structure	50% based on relative TSR, subject to an absolute TSR 'floor'. 50% based on average excess of CROCCE v WACC. Dividend accrued shares awarded in respect of vested options.	50% based on relative TSR, subject to an absolute TSR 'floor'. 50% based on EPS growth relative to RPI , subject to a positive EPS growth 'floor'. Dividend accrued shares awarded in respect of vested options.
TSR	Relative TSR measured on a ranked basis against industry comparators. Absolute TSR 'floor' to be equalled or exceeded before any award may be exercised under the TSR element.	Relative TSR measured against an index of industry comparators. Absolute TSR 'floor' to be equalled or exceeded before any award may be exercised under the TSR element.
CROCCE versus WACC/EPS	Average excess of CROCCE v WACC over a three year performance period.	EPS to represent a financial/capital-based measure, replacing CROCCE v WACC. Positive EPS growth is required for any vested award to be capable of exercise under the EPS element.

Remuneration report

continued

In respect of the long-term incentive plan the Committee has determined that for awards granted in FY 2010:

- 25% of that element of the award which relates to TSR will vest if performance matches the index; maximum vesting will be achieved where Mitchells & Butlers outperforms the index by a factor of 1.35. There will be straight line vesting between these two points;
- 25% of that element of the award which relates to EPS will vest if EPS growth in excess of RPI is at least 12 percentage points. Maximum vesting will occur if the EPS growth in excess of RPI is at least 33 percentage points. There will be straight line vesting between these two points.

Executive Directors' remuneration

The proportion of the Group's basic salary bill attributable to the Executive Directors and other members of the Executive Committee in 2009 was 0.6% (2008 0.7%).

The Committee is regularly updated on pay and conditions applying to other Group employees; these are taken into consideration when setting Executive Director remuneration.

The average earnings (base salary and annual performance bonus) of the Executive Directors were £414,600 (2008 £422,551) and the average earnings, on a full time equivalent basis, per non-Board employee were £13,979 (2008 £13,810); the ratio is therefore 1:30 (2008 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, excluding promotional increases, for members of the Executive Committee which includes the Executive Directors was 4.7%, whereas the average increase for other employees including retail staff and management was 3.4%.

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:

Number of executives	£000
1	201–250
1	251–300
4	301–350
2	351–400

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

Details of outstanding awards including those that vested in the reporting year are set out in the table below.

For the year to 26 September 2009, the maximum combined opportunity under the annual performance bonus and STDIP was 200% of salary. Of the 100% which related to the annual performance bonus, 75% was linked to EPS and 25% to personal and Group business objectives. Payment under each of these elements was subject to the achievement of a cash flow target.

Following the swap loss realised in May 2009, Executive Directors voluntarily offered to forfeit any entitlement to the annual performance bonus; no bonus has been awarded nor has any deferred share award been made.

Previously where payment of any element of the annual bonus has been deferred and converted into an award of Bonus Shares this has, subject to the satisfaction of a three year performance condition, been matched by the Company on a 1:1 basis through an award of Matching Shares. Where an Executive Director leaves the employment of the Group, the Committee has discretion, subject to the satisfaction of the performance condition, to allow Matching Shares to vest, on a pro rata basis, as defined by the STDIP rules.

Performance period	Matching Share performance measure	Target	Actual performance
Commencement of FY 2009 to end of FY 2011	EPS growth in excess of RPI	33.3% of the maximum award vests where average EPS growth in excess of the Retail Price Index ('RPI') is equivalent to 12 percentage points over the three year performance period; 100% of the award vests where average EPS growth in excess of RPI is equivalent to at least 27 percentage points. There is straight line vesting between these points.	To be determined at vesting in November 2011.
Commencement of FY 2008 to end of FY 2010	–	There is no award in respect of the period 2008 to 2010 as no bonus was awarded in respect of FY 2007.	–
Commencement of FY 2007 to end of FY 2009	EPS growth in excess of RPI	As FY 2009 to FY 2011 above.	Growth in average EPS was 1.7%. Growth in RPI was 7.6%. None of the award will vest.
Commencement of FY 2006 to end of FY 2008	EPS growth in excess of RPI	33.3% of maximum award vests where EPS growth, in excess of the Retail Price Index ('RPI') is, from the start to the end of the three year performance period, equivalent to 12 percentage points; 100% of the award vests where EPS growth in excess of RPI is equivalent to at least 27 percentage points. There is straight line vesting between these points.	Growth in EPS over RPI from the start to the end of the performance period was 10.9%. None of the award vested.

On the vesting of Bonus or Matching Shares, shares with a value as close as possible to and no more than the value of the gross ordinary dividends that would have been paid or payable by reference to the Record Dates between the award date and the release date, ('Dividend Accrued Shares') may be awarded.

Performance measurement under the STDIP is reviewed and certified by the Company's auditors. There is no retesting of the performance condition.

Performance Restricted Share Plan ('PRSP')

Under the PRSP rules, nominal cost options to the value of up to 200% of a Director's basic annual salary may be granted. In practice the Committee has applied a limit of 177% in respect of the cycles to the end of FY 2008, FY 2009 and FY 2010 and 140% in the cycle to the end of FY 2011. The lower grant level in the most recent cycle was set by the Committee in conjunction with a reduction in the threshold and maximum vesting levels under the CROCCE versus

WACC measure (as detailed below) and taking into account the prevailing share price at the date of award.

At the discretion of the Committee, a grant of an option over Dividend Accrued Shares may be made in respect of shares which have vested at the end of each performance period. Such option will be exercisable immediately on the payment of a nominal consideration; the value of the Dividend Accrued Shares will, at the date of grant, be as close as possible to and no more than the value of the gross ordinary dividends that would have been paid or payable by reference to the Record Dates between the date the option was granted and the vesting date.

Performance measurement under the PRSP is reviewed and certified by the Company's auditors.

Details of outstanding awards including those that vested in the reporting year are set out below.

Performance period	Performance measures	Target	TSR comparator group	Actual performance
1 October 2008 to 30 September 2011	50% of award measured against relative TSR. 50% of award measured against average excess of CROCCE versus WACC, post tax.	20% of the award vests for 5th position in the comparator group; 100% vests for 1st position with straight line vesting between these points. Below 5th position the award lapses. 20% of the award vests where the average excess is at least 3.5 percentage points; 100% vests where the excess is at least 5.0 percentage points with straight line vesting between these points. Below 3.5 percentage points the award lapses.	Enterprise Inns; Fuller, Smith & Turner; Greene King; JD Wetherspoon; Luminar; Marstons; Punch Taverns; Regent Inns*; The Restaurant Group; Whitbread.	To be determined at vesting in November 2011.
1 October 2007 to 30 September 2010	As above.	Relative TSR – as above. CROCCE versus WACC – as above save that 20% of the award vests where the average excess is at least 4.0 percentage points; 100% vests where the excess is at least 5.5 percentage points. Below 4.0 percentage points the award lapses.	As 2008 to 2011 above.	To be determined at vesting in November 2010.
1 October 2006 to 30 September 2009	As above.	Relative TSR – as above. CROCCE versus WACC – as 2007 to 2010 above.	Enterprise Inns; Fuller, Smith & Turner; Gondola Holdings**; Greene King; JD Wetherspoon; Luminar; Marstons; Punch Taverns; Regent Inns*; The Restaurant Group; Whitbread.	The Company finished 6th in the TSR comparator group and the average excess of CROCCE versus WACC was 4.40 percentage points. None of the TSR element will vest and 41.3% of the CROCCE versus WACC element will vest.
1 October 2005 to 30 September 2008	As above.	Relative TSR – as above. CROCCE versus WACC – as 2008 to 2011 above.	As 2006 to 2009 above.	The Company finished 7th in the TSR comparator group and the average excess of CROCCE versus WACC was 4.57 percentage points. None of the TSR element vested and 77.1% of the CROCCE versus WACC element vested.

* Regent Inns was removed following its delisting on 15 June 2009

** Gondola Holdings was removed following its delisting at the end of 2006

Other share plans

Sharesave

Sharesave is an HM Revenue & Customs ('HMRC') approved all employee share option plan in which all eligible employees, including Executive Directors, are invited to participate. Sharesave options are typically exercisable for six months following an initial three or five year option period. Performance targets do not apply to Sharesave.

Share Incentive Plan

The Share Incentive Plan is an HMRC approved all employee share plan in which all eligible employees, including Executive Directors, are invited to participate. Free shares awarded under the Share Incentive Plan are typically held in trust for a period of at least three years. Performance targets do not apply to the Share Incentive Plan. Executive Directors' entitlements under the Share Incentive Plan are set out on page 54.

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

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 October 2012. Rolled-over legacy options ceased to be subject to performance conditions on demerger. Neither Adam Fowle nor Jeremy Townsend has any entitlement to rolled-over legacy options.

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 69 and 70.

Pension (or cash allowance)

Executive Directors are eligible for membership of the Mitchells & Butlers Executive Pension Plan (the 'Plan'). The Plan comprises defined benefit and defined contribution sections. Adam Fowle and Jeremy Townsend are eligible to participate in the defined contribution section of the Plan.

The Company operates a salary sacrifice arrangement whereby part of an Executive Director's salary can be sacrificed and an amount paid into the Plan representing what would otherwise have been the Executive Director's contribution. The reference to Directors' contributions in this report includes the amount that the Executive Directors would have contributed but for the salary sacrifice.

The Plan has 'registered' status with HMRC and therefore is subject to preferential tax treatment compared to unregistered schemes such as the Mitchells & Butlers Executive Top-Up Scheme ('MABETUS') further details of which are set out below.

Active members of the Plan have the option to pay Additional Voluntary Contributions.

Defined contribution section

Defined contribution section members may elect to pay 3%, 4% or 5% of their basic salary which, for Executive Directors, is matched on a four times basis up to a maximum of 20% by the Plan; alternatively the Director may be provided with a cash allowance equivalent to the net cost to the Company of the contribution which would otherwise be made to the Plan. The main features of the defined contribution section of the Plan are:

- a normal pension age of 60;
- life assurance cover of four times basic salary; and
- full and partial incapacity benefit provision.

Defined benefit section

The defined benefit section of the Plan has been closed to new entrants since 2002.

The main features of the defined benefit section of the Plan 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. For deferred members the minimum pension age will, in line with legislation, increase to age 55 with effect from 6 April 2010. 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.

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. During the year MABETUS provided benefits for Tim Clarke above his earnings cap. Mike Bramley had entitlement to benefits in excess of his Lifetime Allowance provided by MABETUS. Adam Fowle and Jeremy Townsend have no entitlement to benefits under MABETUS.

Non-Executive Directors' remuneration

The remuneration of the Non-Executive Directors is decided by the Board as a whole.

The Board last reviewed Non-Executive Directors fees in 2006. In 2009 a review of the Non-Executive Directors fees compared to market practice and companies of a similar size was undertaken. The current fee level and structure reflect the increasing responsibilities and time commitment of the 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. Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans. The fee structure is set out below:

Dates	Basic fee £	Committee chairman fee* £	Senior Independent Director fee £	Committee member fee* £
From April 2006 to April 2009	35,500	7,500	–	6,000
From May 2009	40,000	8,000	5,000	6,000

* Applicable to each of the Remuneration and Audit Committees only; the Committee member fee is payable in addition to the Committee chairman fee

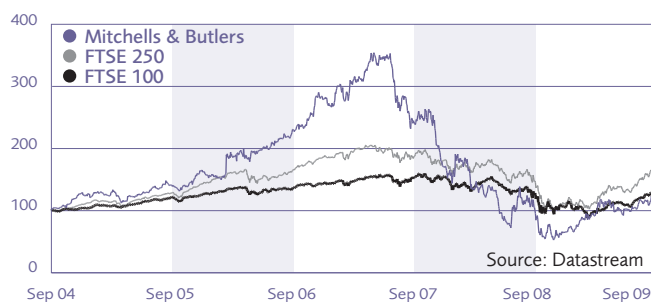
Non-Executive Directors do not have service contracts but operate under a letter of appointment which provides for their tenure of office to be reviewed when they are about to stand for re-election which is every three years. There is no notice period and no provision for termination payments.

The dates of appointment of the Non-Executive Directors are set out on page 36.

FTSE 100 and FTSE 250 comparators

As required by the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008, the Company's TSR performance is shown below against a recognised share 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 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 from 26 September 2004 to 26 September 2009 (rebased to 100)



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

Supplementary information on Directors' remuneration

Directors' remuneration

	Basic salaries and fees £000	Annual performance bonus £000	Cash allowance in lieu of participation in the pension plan £000	Benefits £000	Payments paid in connection with the termination of employment £000	Total remuneration (excluding pensions)	
						2009 52 weeks £000	2008 52 weeks £000
Executive Directors							
Adam Fowle ^a	422	–	71	26	–	519	435
Jeremy Townsend ^b	339	–	–	19	–	358	219
Non-Executive Directors							
Drummond Hall	199	–	–	–	–	199	91
Denis Jackson ^c	3	–	–	–	–	3	–
Simon Laffin ^d	40	–	–	–	–	40	–
Tim Lankester	49	–	–	–	–	49	47
Ray MacSharry ^e	3	–	–	–	–	3	–
Richard McGuire ^e	8	–	–	–	–	8	–
Sara Weller	57	–	–	–	–	57	55
Former Directors							
Mike Bramley ^f	238	–	–	16	–	254	431
Tim Clarke ^g	367	–	–	18	172	557	611
Aaron Brown ^h	4	–	–	–	–	4	8
George Fairweather ⁱ	14	–	–	–	–	14	55
Tim Smalley ^h	4	–	–	–	–	4	8
Former Directors ^j	–	–	–	–	–	–	722
Total reporting year	1,747	–	71	79	172	2,069	
Total prior year	2,137	136	–	111	298		2,682

^a Adam Fowle was appointed as Chief Operating Officer with effect from 12 April 2009, as Acting Chief Executive from 21 May 2009 and as Chief Executive from 3 August 2009

^b Jeremy Townsend was appointed as an Executive Director with effect from 31 January 2008

^c Denis Jackson and Ray MacSharry were appointed as Non-Executive Directors on 28 August 2009

^d Simon Laffin was appointed as a Non-Executive Director on 29 January 2009

^e Richard McGuire was appointed as a Non-independent Non-Executive Director on 16 July 2009

^f Mike Bramley left the Mitchells & Butlers Group by reason of early retirement (aged 58) on 30 April 2009. In accordance with the terms of the healthcare plan, as applicable to all retiring members, Mike 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 2009) following his retirement. The value of this benefit, being £606 is included in the benefit value shown above.

^g Tim Clarke left the Mitchells & Butlers Group on 21 May 2009. The post termination payment includes an amount in respect of unused holiday entitlement at the date of termination. Under the terms of his contract he is entitled to and has continued to receive base pay and benefits (but not bonus) for the duration of the 12 month notice period. Notwithstanding his contractual entitlement, payments will cease or reduce on the earlier of the expiry of the notice period (20 May 2010) or on commencement of an alternative role. A proportion of his base pay was given up in exchange for ongoing private medical cover, on the same basis as applied at the date of leaving, for the duration of the notice period. Entitlement to such benefit will cease on the earlier of 20 May 2010 or the date on which he commences alternative employment. Tim is a non-executive Director of Associated British Foods plc and received £41,381 (2008 £60,767) for the period from 28 September 2008 to 21 May 2009 for that appointment.

^h Aaron Brown and Tim Smalley resigned as Non-Executive Directors of the Company on 8 October 2008

ⁱ George Fairweather resigned as a Non-Executive Director of the Company on 31 December 2008

^j In respect of Roger Carr, Tony Hughes and Karim Naffah who left the employment of the Group during FY 2008

Karim Naffah left the Mitchells & Butlers Group on 29 January 2008. Under the terms of his contract Karim was entitled to and continued to receive base pay and benefits (but not bonus) for the duration of the 12 month notice period. The payments ended on 28 January 2009 and in the reporting year totalled £137,000. Payments made in the previous reporting year are included in the 2008 payments to former Directors as shown above.

'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.

Directors' contracts

The service contract details attaching to each of the Executive Directors at 26 September 2009 are as set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Phased compensation on termination ^a	Compensation on change of control
Adam Fowle	01/10/07	Indefinite	12 months	6 months	Yes	No
Jeremy Townsend	31/01/08	Indefinite	12 months	6 months	Yes	No
Mike Bramley ^b	15/04/03	Nil	12 months	6 months	No	No
Tim Clarke ^c	15/04/03	To end of unexpired notice period, being 20/05/10	12 months	6 months	No	No

^a Instead of giving notice to terminate a Director's employment the Company may terminate his employment with immediate effect and pay him in lieu of basic salary, pension and other contractual benefits; such amounts will normally be payable in equal instalments on the established payroll dates, until the expiry of the notice period or if earlier, the date on which the former Director secures alternative employment

^b Mike Bramley retired from employment with the Group on 30 April 2009

^c Tim Clarke's employment with the Group terminated on 21 May 2009; although not a term of his contract the agreed termination arrangements provided for phased compensation payments

Short-Term Deferred Incentive Plan

The table below shows the maximum Matching Shares receivable based on some or all, as determined by the Committee, of the Directors' annual bonuses being deferred into share awards. All awards of Matching Shares have a performance condition. This is described on page 46.

Directors	Matching Shares held at 27/09/08	Matching Shares awarded during FY 2009	Award date	Market price per share at award (p)	Matching Shares vesting during FY 2009	Matching Shares lapsed during FY 2009	Matching Shares held at 26/09/09 or earlier leaving date as stated	Planned vesting date	Value based on share price of 262.6p at 26/09/09 £
Adam Fowle	–	19,331	02/12/08	158.42	–	–	19,331	25/11/11	50,763
Total	–	19,331			–	–	19,331		50,763
Jeremy Townsend	–	3,257	02/12/08	158.42	–	–	3,257	25/11/11	8,553
Total	–	3,257			–	–	3,257		8,553
30/04/09									
Mike Bramley	46,666	–	05/12/05	380.25	–	46,666	–	–	–
	19,455	–	05/12/06	682.33	–	–	19,455	27/11/09	51,089
Total	66,121	–			–	46,666	19,455		51,089
21/05/09									
Tim Clarke	37,948	–	05/12/05	380.25	–	37,948	–	–	–
	44,187	–	05/12/06	682.33	–	–	44,187	–	–
	–	8,742	02/12/08	158.42	–	–	8,742	–	–
Total	82,135	8,742			–	37,948	52,929^a		–

^a Lapsed on 22 May 2009

No Matching Shares vested during FY 2009. The potential total gross gain available to each of the Directors had they sold all of their Matching Shares in FY 2008 was £292,389.

As set out on page 46 100% of the STDIP Matching Shares due to vest on 27 November 2009 will lapse as the performance condition has not been met.

Performance Restricted Share Plan

The table below shows the maximum options exercisable for nominal consideration, once the relevant performance conditions have been satisfied. Details of the performance conditions are set out on page 47.

Directors	Maximum potential shares held at 27/09/08	Awarded during FY 2009	Award date	Market price per share at award (p)	Lapsed during FY 2009	Exercised during FY 2009	Market price per share at exercise (p)	Value at exercise £	Actual/planned vesting date	Maximum potential shares held at 26/09/09 or earlier leaving date as stated	Latest lapse date	Maximum value based on share price of 262.6p at 26/09/09 £	Expected value based on share price of 262.6p at 26/09/09 £
Adam Fowle	110,276	–	06/02/06 ^a	398.00	67,765	42,511	145.32	61,777	27/11/08	–	–	–	
	65,506	–	01/12/06	670.00	–	–	–	–	27/11/09	65,506	27/11/11	172,019	35,519
	290,844	–	23/06/08 ^b	213.00	–	–	–	–	26/11/10	290,844	26/11/12	763,756	
	–	9,795 ^c	27/11/08	134.75 ^d	–	9,795	145.32	14,234	27/11/08	–	–	–	
	–	293,852	28/11/08	166.75 ^e	–	–	–	–	25/11/11	293,852	25/11/13	771,655	
Total	466,626	303,647			67,765	52,306		76,011		650,202		1,707,430	
30/04/09													
Jeremy Townsend	75,376	–	06/02/06 ^a	398.00	46,319	29,057	145.32	42,226	27/11/08	–	–	–	
	44,776	–	01/12/06	670.00	–	–	–	–	27/11/09	44,776	27/11/11	117,582	24,280
	245,322	–	23/06/08 ^b	213.00	–	–	–	–	26/11/10	245,322	26/11/12	644,216	
	–	6,695 ^c	27/11/08	134.75 ^d	–	6,695	145.32	9,729	27/11/08	–	–	–	
	–	260,268	28/11/08	166.75 ^e	–	–	–	–	25/11/11	260,268	25/11/13	683,464	
Total	365,474	266,963			46,319	35,752		51,955		550,366		1,445,262	
30/04/09													
Mike Bramley	160,100	–	06/02/06 ^a	398.00	98,382	61,718	145.32	89,689	27/11/08	–	–	–	
	95,104	–	01/12/06	670.00	–	–	–	–	27/11/09	95,104	28/05/10	249,743	44,364
	324,084	–	23/06/08 ^b	213.00	–	–	–	–	26/11/10	324,084	27/05/11	851,045	
	–	14,221 ^c	27/11/08	134.75 ^d	–	14,221	145.32	20,666	27/11/08	–	–	–	
	–	327,436	28/11/08	166.75 ^e	–	–	–	–	25/11/11	327,436	25/05/12	859,847	
Total	579,288	341,657			98,382	75,939		110,355		746,624		1,960,635	
21/05/09													
Tim Clarke	235,702	–	06/02/06 ^a	398.00	144,839	90,863	145.32	132,042	27/11/08	–	–	–	
	140,014	–	01/12/06	670.00	–	–	–	–	27/11/09	140,014	22/05/09	–	
	460,366	–	23/06/08 ^b	213.00	–	–	–	–	26/11/10	460,366	22/05/09	–	
	–	20,937 ^c	27/11/08	134.75 ^d	–	20,937	145.32	30,426	27/11/08	–	–	–	
	–	465,126	28/11/08	166.75 ^e	–	–	–	–	25/11/11	465,126	22/05/09	–	
Total	836,082	486,063			144,839	111,800		162,468		1,065,506		–	

^a The award which would normally have been made in November 2005 was deferred until February 2006 pending the approval by shareholders of changes to the PRSP at the AGM held on 2 February 2006

^b The award which would normally have been made in November 2007 was deferred until June 2008

^c Dividend Accrued Shares awarded in respect of options which vested on 27 November 2008

^d The average share price calculated using the mid-market share price on 21, 24 and 25 November 2008

^e The mid-market share price on 27 November 2008

The potential total gross gain made in the year by all the Directors had they sold all their shares when they exercised them was £400,789 (2008 £1,524,723).

Directors' share options

The table below shows shares under option granted under the EXSOP and Sharesave plans, as well as rolled-over legacy options.

Shares under ordinary option											
	Opening balance 27/09/08	Granted	Vested or changed category during period	Exercised	Lapsed	Closing balance 26/09/09 or earlier leaving date as stated	Weighted average option price (p)	Price of option exercised (p)	Market share price on date of exercise (p)	Earliest exercise date	Last expiry date
Adam Fowle											
A	–	–	–	–	–	–	–	–	–	–	–
B	–	–	6,283	–	–	6,283	259.00	–	–	01/10/13	31/03/14
C	120,170	–	–	–	–	120,170	326.10	–	–	–	24/05/15
D	6,283	–	(6,283)	–	–	–	–	–	–	–	–
Total	126,453	–	–	–	–	126,453					
Jeremy Townsend											
A	–	–	–	–	–	–	–	–	–	–	–
B	–	4,630	–	–	–	4,630	196.00	–	–	01/10/12	31/03/13
C	83,207	–	–	–	–	83,207	330.50	–	–	–	23/06/15
D	3,629	–	–	–	(3,629)	–	–	–	–	–	–
Total	86,836	4,630	–	–	(3,629)	87,837					
30/04/09											
Mike Bramley											
A	–	–	265,346	–	–	265,346	252.50	–	–	–	30/10/09
B	–	–	–	–	–	–	–	–	–	–	–
C	480,004	–	(265,346)	–	–	214,658	326.10	–	–	–	24/05/10
D	–	–	–	–	–	–	–	–	–	–	–
Total	480,004	–	–	–	–	480,004					
21/05/09											
Tim Clarke											
A	–	–	9,423	(9,423)	–	–	–	169.00	216.00	–	–
B	9,423	–	(9,423)	–	–	–	–	–	–	–	–
C	1,164,914	–	–	–	(64,857)	1,100,057	276.32	–	–	–	22/05/09
D	1,451	–	–	–	–	1,451	259.00	–	–	01/10/11	22/05/09
Total	1,175,788	–	–	(9,423)	(64,857)	1,101,508					

Shares under option at 26 September 2009 are designated as:

- A Where the options are exercisable and the market price per share was above the option price at 26 September 2009 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 26 September 2009 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 26 September 2009.

During the year ended 26 September 2009 an option granted in June 2003 under the Sharesave plan vested for Tim Clarke. The number of shares under option that vested during the year have moved from category B to category A.

The potential total gross gain made in the year by all Directors had they sold all their shares when they exercised the above share options would have been £4,429 (2008 £nil).

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 Director's options over Mitchells & Butlers plc shares under the EXSOP lapsed during the year.

Sharesave

Sharesave options are exercisable between 1 October 2012 and 31 March 2014.

Jeremy Townsend was awarded an option over 4,630 Mitchells & Butlers plc shares on 24 June 2009 at an option price of 196p; Jeremy's option over 3,629 Mitchells & Butlers plc shares, which was awarded on 25 June 2008 at an option price of 259p, lapsed during the year.

Rolled-over legacy options

A rolled-over legacy option over 64,857 shares, which was exercisable by Tim Clarke at an option price of 286.68p, lapsed on 25 February 2009.

Share Incentive Plan

As at 26 September 2009, the Executive Directors had the following entitlements subject to the rules of the all-employee Share Incentive Plan.

Directors	Shares held at 27/09/08	Shares awarded during FY 2009	Award date	Market price per share at award (p)	Normal vesting date	Shares held at 26/09/09
Adam Fowle	224	–	29/06/07	876.00	29/06/10	224
	1,060	–	30/06/08	209.00	30/06/11	1,060
	–	1,102	30/06/09	250.25	30/06/12	1,102
Total	1,284	1,102				2,386
Jeremy Townsend	150	–	29/06/07	876.00	29/06/10	150
	749	–	30/06/08	209.00	30/06/11	749
	–	882	30/06/09	250.25	30/06/12	882
Total	899	882				1,781

The closing mid-market share price on the award date of 30 June 2009 was 248p.

Following Mike Bramley's retirement from the Group on 30 April 2009, and in accordance with the rules of the Plan, 4,147 shares awarded between 27 June 2003 and 30 June 2008 were released to him on 15 July 2009. The market value on the date of release was £10,616.

Following the termination of Tim Clarke's employment with the Group on 21 May 2009, and in accordance with the rules of the Plan, 2,901 shares awarded between 27 June 2003 and 5 July 2006 were released to him on 29 July 2009. The market value on the date of release was £7,208.99. The balance of 1,777 shares lapsed on the termination of Tim's employment.

The potential total gross gain made in the year by all of the Directors had they sold all their shares when they vested would have been £6,267 (2008 £12,274). The market price per share at the date of grant for those shares which vested during the year ranged from 209p to 876p.

Directors' shareholdings

	Ordinary shares of 8 ¹³ / ₂₄ p		Shareholding as a multiple of salary as at 26/09/09 ^a
	26/09/09	27/09/08	
Executive Directors			
Adam Fowle	68,042	36,157	0.3
Jeremy Townsend	46,413	24,491	0.3
Non-Executive Directors			
Drummond Hall	84,387	54,387	—
Denis Jackson	—	—	—
Simon Laffin	6,000	—	—
Sir Tim Lankester	5,271	5,271	—
Ray MacSharry	—	—	—
Richard McGuire	—	—	—
Sara Weller	9,211	9,211	—

^a Based on the share price on 25 September 2009 of 262.6p

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.

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 25 September 2009 was 262.6p and the range during the year to 25 September 2009 was 128p to 302.6p per share.

There have been no changes in the Directors' interests in shares or options granted by the Company and its subsidiaries between the end of the financial year and 3 November 2009, one month prior to the Notice of the Annual General Meeting.

Directors' Pension Benefits

Defined contribution section

Adam Fowle has elected to receive a cash allowance, being £71,299 (2008 nil) in the year to 26 September 2009, in lieu of a Company contribution to the Plan. The Company contributed £69,808 to the Plan in 2008.

In respect of Jeremy Townsend the Company contributed £67,722 to the Plan in the year to 26 September 2009 (2008 £40,767).

Director	Years of pensionable service	Age at 26/09/09	Director's contribution £ ^a	Transfer value of accrued pension		Increase in transfer value over year less Director's contributions £	Increase or decrease in accrued pension ^b £ p.a.	Increase or decrease in accrued pension ^c £ p.a.	Accrued pension at 26/09/09 ^d £ p.a.
				27/09/08 £	26/09/09 £				
Mike Bramley ^e	29	58	—	6,047,800 ^f	6,574,600	526,800	(29,500)	(29,500)	228,100
Tim Clarke ^g	19	52	23,200	6,559,800	8,094,700	1,511,700	32,600	32,600	372,100

^a Contributions paid in the year by the Directors under the terms of the Plan

^b The absolute increase or decrease in accrued pension during the year

^c The increase or decrease in accrued pension during the year, excluding any increase for inflation

^d Accrued pension is that which is in payment where the former Director has retired; otherwise it is the amount which would be paid annually on retirement at 60, based on service to 26 September 2009

^e Mike Bramley retired under the terms of the Company's discretionary Early Retirement Facility on 30 April 2009; as such he ceased to accrue pension benefits. Mike elected to take a cash lump sum of £657,778 (£633,639 after tax). The residual pension payable as at 30 April 2009 was £228,110 per year. No specific additional contribution is or has been made by the Company in respect of this early retirement.

^f The transfer value at 27 September 2008 has been restated following actuarial advice; this was reported as £6,519,400 in the prior year

^g In accordance with the termination arrangements, Tim Clarke's transfer value includes an amount for service between 21 May 2009 and 26 September 2009

Transfer values have been calculated using the transfer value basis determined by the Plan Trustee, and are consistent with statutory requirements and guidance issued by the Pensions Regulator.

Approved by the Board

Sara Weller

Chairman of the Remuneration Committee

25 November 2009

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 26 September 2009 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' responsibilities statement set out on page 34, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 26 September 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 33, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the year ended 26 September 2009 and on the information in the Directors' remuneration report that is described as having been audited.

Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Birmingham
26 November 2009

Notes:

1. 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.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

For the 52 weeks ended 26 September 2009

	Notes	2009 52 weeks			2008 52 weeks		
		Before exceptional items and other adjustments £m	Exceptional items and other adjustments ^a £m	Total £m	Before exceptional items and other adjustments £m	Exceptional items and other adjustments ^a £m	Total £m
Revenue	2	1,958	–	1,958	1,908	–	1,908
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3, 8	(1,530)	44	(1,486)	(1,431)	(12)	(1,443)
Net (loss)/profit arising on property disposals	8	–	(8)	(8)	–	6	6
EBITDA ^b		428	36	464	477	(6)	471
Depreciation, amortisation and movements in the valuation of the property portfolio	3, 8, 13, 14	(128)	(123)	(251)	(134)	(206)	(340)
Operating profit	2	300	(87)	213	343	(212)	131
Finance costs	8, 9	(167)	(55)	(222)	(174)	(205)	(379)
Finance revenue	9	1	4	5	7	–	7
Net finance (charge)/income from pensions	7, 8	–	(6)	(6)	–	3	3
Profit/(loss) before tax		134	(144)	(10)	176	(414)	(238)
Tax (expense)/credit	8, 10	(38)	52	14	(51)	113	62
Profit/(loss) for the financial period attributable to equity holders of the parent		96	(92)	4	125	(301)	(176)
Earnings/(loss) per ordinary share							
Basic	12	23.6p		1.0p	31.0p		(43.7)p
Diluted	12	23.5p		1.0p	30.6p		(43.7)p
Dividends							
Ordinary dividends							
Proposed or paid (pence)	11			–			4.55
Proposed or paid (£m)	11			–			18

^a Exceptional items and other adjustments are explained in note 1 and analysed in note 8

^b Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio

All activities relate to continuing operations.

The notes on pages 61 to 94 form an integral part of these financial statements.

Group statement of recognised income and expense

For the 52 weeks ended 26 September 2009

	Notes	2009 52 weeks £m	2008 52 weeks £m
Unrealised gain/(loss) on revaluation of the property portfolio	14	17	(166)
Tax (charge)/credit relating to movements in respect of revaluations	10	(12)	64
Losses on cash flow hedges taken to equity	20	(88)	(20)
Actuarial losses on defined benefit pension schemes	7	(174)	(35)
Exchange differences on translation of foreign operations		1	5
Tax on items recognised directly in equity	10	75	5
Expense recognised directly in equity		(181)	(147)
Transfers to the income statement:			
On cash flow hedges	20	(11)	(30)
Tax on items transferred from equity	10	3	8
Net expense recognised directly in equity		(189)	(169)
Profit/(loss) for the financial period		4	(176)
Total recognised expense for the financial period attributable to equity holders of the parent		(185)	(345)

The notes on pages 61 to 94 form an integral part of these financial statements.

Group balance sheet

26 September 2009

	Notes	2009 £m	2008 £m
ASSETS			
Goodwill and other intangible assets	13	1	3
Property, plant and equipment	14	4,461	4,545
Lease premiums		10	10
Deferred tax asset	21	87	58
Derivative financial instruments	20	6	1
Total non-current assets		4,565	4,617
Inventories	15	38	39
Trade and other receivables	16	40	80
Current tax asset	10	–	3
Cash collateral deposits	27	2	2
Cash and cash equivalents	27	105	129
Total current assets		185	253
Non-current assets held for sale	17	19	114
Total assets		4,769	4,984
LIABILITIES			
Borrowings	19	(59)	(43)
Derivative financial instruments	20	(50)	(48)
Trade and other payables	18	(270)	(276)
Current tax liabilities	10	(1)	–
Total current liabilities		(380)	(367)
Borrowings	19	(2,660)	(2,801)
Derivative financial instruments	20	(60)	(33)
Pension liabilities	7	(130)	(23)
Deferred tax liabilities	21	(542)	(584)
Provisions	22	–	(1)
Total non-current liabilities		(3,392)	(3,442)
Total liabilities		(3,772)	(3,809)
Net assets attributable to equity holders of the parent		997	1,175
EQUITY			
Called up share capital	23,25	35	34
Share premium account	25	17	14
Capital redemption reserve	25	3	3
Revaluation reserve	25	703	697
Own shares held	25	(2)	(3)
Hedging reserve	25	(87)	(16)
Translation reserve	25	13	12
Retained earnings	25	315	434
Total equity		997	1,175

The notes on pages 61 to 94 form an integral part of these financial statements.

Signed on behalf of the Board

Adam Fowle

Jeremy Townsend

25 November 2009

Group cash flow statement

For the 52 weeks ended 26 September 2009

	Notes	2009 52 weeks £m	2008 52 weeks £m
Cash flow from operations	26	426	474
Interest paid		(161)	(171)
Interest received		1	7
Tax received/(paid)		21	(4)
Exceptional interest on tax credits		4	–
Net cash from operating activities		291	306
Investing activities			
Purchases of property, plant and equipment		(128)	(192)
Purchases of intangibles (computer software)		(1)	(1)
Proceeds from sale of property, plant and equipment		31	82
Proceeds from disposal of non-current assets held for sale		41	–
Transfers to cash collateral deposits		–	(2)
Corporate restructuring costs		–	(3)
Net cash used in investing activities		(57)	(116)
Financing activities			
Issue of ordinary share capital		4	–
Purchase of own shares		–	(5)
Proceeds on release of own shares held		–	3
Repayment of principal in respect of securitised debt	19	(45)	(41)
(Repayment of)/proceeds from principal in respect of other borrowings		(120)	320
Expenditure associated with refinancing		(2)	(11)
Derivative financial instruments closure costs	8	(95)	(386)
Dividends paid	11	–	(58)
Net cash used in financing activities		(258)	(178)
Net (decrease)/increase in cash and cash equivalents	28	(24)	12
Cash and cash equivalents at the beginning of the financial period		129	117
Cash and cash equivalents at the end of the financial period		105	129

Cash and cash equivalents are defined in note 1.

The notes on pages 61 to 94 form an integral part of these financial statements.

Notes to the financial statements

For the 52 weeks ended 26 September 2009

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 2006.

The Group revalues its freehold and long leasehold land and buildings to fair value, for accounting purposes, 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 are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. The Group's policy is to account for land held under both long and short leasehold contracts as operating leases, since it has no expectation that title will pass on expiry of the lease contracts.

The Group's accounting policies have been applied consistently, 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 390 (3) of the Companies Act 2006.

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, asset impairments, pensions and tax. See 'Property, plant and equipment', 'Employee benefits' and 'Tax' below (see also Risks and uncertainties on pages 24 to 27) 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 less costs to sell or the value in use, in order to reach a conclusion as to whether it deems the goodwill to be recoverable. Value in use estimates are based on management's projection of the cash flows that the business will generate, after applying a suitable discount rate (see note 13 'Goodwill and other intangible assets' for further information). Fair value less costs to sell is based on management's assessment of the net proceeds which could be generated through disposing of the business to which the goodwill relates. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. 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 ten years with the majority being five years.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

1. General information continued

Property, plant and equipment

Property, plant and equipment, freehold and long leasehold land and buildings are revalued to fair value for accounting purposes. Short leasehold properties, fixtures and fittings are held at deemed cost on transition to IFRS less depreciation and impairment provisions. Non-current assets held for sale are held at their carrying value in accordance with the Group's policy or their fair value less costs to sell where this is lower. Surpluses which arise from the revaluation exercise are recorded directly within the revaluation reserve unless they are reversing a revaluation adjustment which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly in the revaluation reserve to the extent that a surplus exists against the same asset. Any residual amount is then recognised against income, as a revaluation adjustment, or as impairment where it exceeds the asset's recoverable value (see below).

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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 uncollectible 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. Inflation swap contracts and gilt hedges used to mitigate the Group's anticipated exposure to movements in the retail price index and the value of its fixed rate debt, were closed out in the prior year. 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.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

1. General information continued

Foreign currencies

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

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

Revenue

Revenue is the 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.

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 7 '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. Curtailments and settlements relating to the Group's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

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

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 adjusted profit and earnings per share information that excludes exceptional items and other adjustments including the related tax on these items. This adjusted information is disclosed to allow a better understanding of the underlying trading performance of the Group and is consistent with the Group's internal management reporting. Exceptional items are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. Other adjustments excluded from adjusted profit and earnings per share, comprise IAS 39 movements and for the first time this year, the IAS 19 net pensions finance charge (the presentation of the comparative numbers has been revised to take account of this change in disclosure, which has not changed total profit). Both the IAS 39 movements and the net pensions finance charge can be volatile, as they are calculated with reference to long-term interest rates and both are non-cash numbers. IAS 39 movements represent movements in the fair value of the Group's derivative financial instruments which do not qualify for hedge accounting and are therefore recognised in the income statement. IAS 19 'Employee Benefits' requires the pension scheme liabilities to be discounted to a present value, using a corporate bond rate. The net pensions finance charge consists of the net of the movement in this discount and the notional return expected to be earned on the pension scheme assets.

Recent accounting developments

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

IAS 1 (Revised) – is effective for periods beginning on or after 1 January 2009 and requires separate presentation of owner and non-owner changes in equity, introducing a statement of comprehensive income. This will replace the statement of recognised income and expense currently presented by the Group.

IFRIC 14 'IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – is effective for periods beginning on or after 1 January 2009 and provides guidance on the amount of surplus in a defined benefit pension scheme that can be recognised as an asset under IAS 19 'Employee Benefits'.

IFRS 2 Share-Based Payment vesting conditions and cancellations (amendments) – is effective for periods beginning on or after 1 January 2009 and clarifies the terms 'vesting conditions' and 'cancellations' used in the standard.

IFRS 7 (Amendment) 'Financial Instruments: Disclosure' – is effective for periods beginning on or after 1 January 2009 and requires enhanced disclosure of fair value measurements and liquidity risks relating to financial instruments.

IFRS 8 Operating Segments – replaces IAS 14 and is effective for periods beginning on or after 1 January 2009. It requires segment information to be presented on the same basis as that used for internal reporting purposes. Upon the adoption of IFRS 8, the Group anticipates revising the presentation of its segment information to align this with the management structure put in place by Adam Fowle, following his appointment as Chief Executive in the period.

The Group is currently considering whether the standards and interpretations above will impact the presentation of its consolidated results, but do not anticipate that the adoption of the new standards or revisions to existing standards will have a material impact on the income or net assets reported in the Group's financial statements in the period of initial adoption.

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 = €1.15 (2008 £1 = €1.31), 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 = €1.09 (2008 £1 = €1.26) and £1 = \$1.60 (2008 £1 = \$1.84) respectively.

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2. Segmental analysis

During the year the Group's primary reporting format was by business segment and its secondary format was by geographic segment. The Group had 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.

	2009 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Revenue						
Sales to third-parties	958	999	1,957	1	–	1,958
Operating profit						
Operating profit before exceptional items and other adjustments	159	141	300	–	–	300
Exceptional items and other adjustments	(89)	(42)	(131)	–	44	(87)
Operating profit	70	99	169	–	44	213
Net finance costs						(223)
Tax credit						14
Profit for the financial period						4

	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 and other adjustments	176	156	332	11	–	343
Exceptional items and other adjustments	(134)	(66)	(200)	–	(12)	(212)
Operating profit	42	90	132	11	(12)	131
Net finance costs						(369)
Tax credit						62
Loss for the financial period						(176)

	2009 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Net assets						
Assets	2,188	2,366	4,554	14	–	4,568
Liabilities	(132)	(137)	(269)	(1)	–	(270)
Segmental net assets	2,056	2,229	4,285	13	–	4,298
Net debt					(2,600)	(2,600)
Other unallocated liabilities ^a					(701)	(701)
					(3,301)	997
Other						
Capital expenditure	50	72	122	–	–	122
Depreciation and amortisation	62	66	128	–	–	128

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

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

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	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Revenue – sales to third-parties	1,911	1,868	47	40	1,958	1,908
Segment assets	4,557	4,777	11	13	4,568	4,790
Capital expenditure	121	264	1	3	122	267

3. Operating costs

	2009 52 weeks £m	2008 52 weeks £m
Raw materials and consumables	589	545
Changes in inventory of finished goods and work in progress	1	(1)
Employee costs (note 5)	473	494
Hire of plant and machinery	31	31
Operating lease rentals:		
– minimum lease payments	47	46
– contingent rents	1	2
Other costs	344	326
	1,486	1,443
Depreciation of property, plant and equipment	124	129
Amortisation of intangible assets	3	4
Amortisation of lease premiums	1	1
Total movement in the valuation of the property portfolio (note 8)	123	206
Depreciation, amortisation and movement in the valuation of the property portfolio	251	340
	1,737	1,783

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For the 52 weeks ended 26 September 2009 continued

4. Auditors' remuneration

	2009 52 weeks £m	2008 52 weeks £m
Audit of the financial statements	0.1	0.2
Audit of the Company's subsidiaries	0.4	0.4
	0.5	0.6
Other fees to auditors:		
– taxation and other services	–	0.1
– corporate finance services	–	0.2
	–	0.3

The auditors' fee for the audit of the parent company was £22,000 (2008 £22,000).
Substantially all of the auditors' remuneration was paid in the UK.

5. Employees and Directors

	2009 52 weeks £m	2008 52 weeks £m
Costs		
Wages and salaries	467	445
Share-based payments (note 6)	3	4
Total wages and salaries	470	449
Social security costs	35	30
Pensions (note 7)	(32)	15
	473	494
	Number	Number
Average number of employees, including part-time employees		
Retail	42,023	40,773
SCPD	–	1
	42,023	40,774

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 42 to 55.

6. Share-based payments

The expense recognised for share-based payments in the year is £3m (2008 £4m) 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 a HMRC approved savings scheme 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 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 average adjusted earnings per share (including net pension income) over the three year performance period ending 26 September 2009, exceeds by at least 27%, the increase in the UK Retail Price Index for the same period.

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 or 2008/09 bonus year due to the losses suffered by the Company from the hedge closures in these periods.

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 ('CROCE') 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.

Executive Share Option Plan

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

The vesting period for these options is three years from grant, followed by a seven year exercise period. The latest possible exercise date for any of these options outstanding at 26 September 2009 is 23 June 2015.

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 26 September 2009 is 28 May 2012.

Further details of the above schemes, including future changes to the Performance Restricted Share Plan and Short-Term Deferred Incentive Plan, are included in the Remuneration report on pages 42 to 55.

The following tables set out awards and options granted during 2009. No options under the Executive Share Option Plan or Rolled-over options were granted during the period.

2009	Dividend Accrued Shares	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan
Number of shares/options awarded	189,163 ^a	62,660	4,389,230	2,649,683	396,915

^a The award of Dividend Accrued Shares during the period relates to the 2005/08 Performance Restricted Share Plan which vested in December 2008

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:

2009	Performance Restricted Share Plan	Sharesave Plan
	Monte Carlo Simulation and Binomial	Black-Scholes
Valuation model		
Weighted average share price	163.3p	250.3p
Exercise price	— ^a	196.0p
Expected dividend yield	— ^b	1.33% ^c
Risk-free interest rate	3.92%	3.73%
Volatility ^d	46.9%	49.3%
Expected life (years) ^e	3.00	4.20

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6. Share-based payments continued

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

^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 2008 and 2009 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 dividend yield for the grant of the Sharesave Plan in 2008 and 2009 has used historical dividend information. For details relating to the Group's current dividend policy see note 20 on page 86.

^d 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.

^e 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.

The fair value of the Share Incentive Plan shares is equal to the share price on the date of grant as there is no option 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.

The Dividend Accrued Shares awarded during the period have no incremental fair value as this has already been included within the fair value of the original award through the dividend yield assumption, as noted above.

Movements in the awards and options outstanding under these schemes for the years ended 26 September 2009 and 27 September 2008 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 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
Granted	63	4,578	397
Exercised	(163)	(996)	(102)
Lapsed	(268)	(2,616)	(78)
Outstanding at 26 September 2009	204	8,671	1,288
Fair value of options granted during the period (pence) ^a			
At 26 September 2009	152.0	83.7 ^c	248.0
At 27 September 2008	— ^b	107.5 ^c	205.0
Weighted average remaining contract life (years)			
At 26 September 2009	0.6	3.5	— ^d
At 27 September 2008	0.6	3.7	— ^d

^a Fair value is based on the date of grant

^b There was no grant under the Short-Term Deferred Incentive Plan during the prior period as the Executive Directors' bonuses were forgone due to the loss suffered on the hedge closure

^c For the Performance Restricted Share Plan (excluding Dividend Accrued Shares) 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 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
Granted	–	–	2,650	196.0	–	–
Exercised	(798)	247.4	(907)	186.7	(48)	259.7
Lapsed	(1,172)	289.7	(1,577)	310.0	(596)	269.6
Options outstanding at 26 September 2009	4,999	284.3	4,791	259.5	812	261.9
Options exercisable						
At 26 September 2009	4,999	284.3	36	251.6	812	261.9
At 27 September 2008	6,969	281.0	32	209.0	1,456	265.0
Fair value of options granted during the period (pence) ^a						
At 26 September 2009	–		115.0 ^b		–	
At 27 September 2008	–		46.8 ^b		–	
Range of prices (pence) of options outstanding:						
At 26 September 2009		219.0–330.5		169.0–711.0		214.5–266.7
At 27 September 2008		219.0–330.5		169.0–711.0		214.5–286.7

^a Fair value is based on the date of grant

^b Weighted average fair value has been shown for the Sharesave Plan

The weighted average share price during the period was 221.5p (2008 387.9p).

Summarised information about options outstanding at 26 September 2009 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
	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
Range of exercise prices (pence)						
Performance Restricted Share Plan						
Negligible ^a	8,671	3.5	— ^a	161	1.0	— ^a
Executive Share Option Plan						
219.0	798	3.7	219.0	798	3.7	219.0
252.5	1,681	4.7	252.5	1,681	4.7	252.0
326.1 to 330.5	2,520	5.7	326.2	2,520	5.7	326.2
	4,999	5.0	284.3	4,999	5.0	284.3
Sharesave Plan						
169.0	2	0.0	169.0	2	–	169.0
209.0	243	0.5	209.0	1	–	209.0
258.5	171	1.2	258.5	33	–	258.5
401.0	341	0.9	401.0	–	–	–
711.0	288	2.0	711.0	–	–	–
259.0	1,143	3.2	259.0	–	–	–
196.0	2,603	4.2	196.0	–	–	–
	4,791	3.3	259.5	36	–	251.6
Rolled-over options						
214.5 to 242.0	35	0.4	214.5	35	0.4	214.5
242.1 to 266.7	777	2.2	264.0	777	2.2	264.0
	812	2.1	261.9	812	2.1	261.9

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

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7. Pensions

Background

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. The defined benefit liability relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

Measurement of scheme assets and liabilities – IAS 19

The valuations used for IAS 19 purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2007 and updated by the schemes' qualified actuaries to 26 September 2009. Scheme assets are stated at market value at 26 September 2009 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 requires that the scheme liabilities are discounted using market yields at the end of the period on high quality corporate bonds (see 'Discount rate' assumption in the table below). The IAS 19 deficit calculated on this basis is £(130)m (2008 £(23)m, 2007 £(18)m) as set out below. 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 £25m, with no impact on the income statement charge. Pension costs are assessed in accordance with the advice of independent qualified actuaries. 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.

Principal financial assumptions

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

	2009	2008	2007	2006	2005
Wages and salaries increases	2.0% ^a	5.0% ^b	4.9% ^b	4.4%	4.3%
Pensions increases	3.3%	3.5%	3.4%	2.9%	2.8%
Discount rate	5.5%	6.5%	5.9%	5.0%	5.0%
Inflation rate	3.3%	3.5%	3.4%	2.9%	2.8%

^a Reflects the impact of pension changes introduced during the period

^b Represents the assumption for MABPP members (6.0% for MABEPP members (2007 5.9%)). This included allowance for promotional salary increases

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:

	2009		2008	
	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

Amounts recognised in respect of defined benefit schemes

The long-term rates of return on assets at 26 September 2009 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2010 financial year. The 2008 rates shown are used in calculating the 2009 expected return.

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class 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 5.5% (2008 6.1%, 2007 6.1%). The actual investment return achieved on the scheme assets over the year was 7.9% (2008 (5.4)%, 2007 9.1%), which represented a gain of £84m (2008 loss of £71m, 2007 gain of £98m).

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:

	2009		2008		2007	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	7.5	467	8.2	359	7.9	345
Bonds	4.5	800	5.3	814	5.9	854
Property	7.5	13	8.2	38	7.9	93
Fair value of assets		1,280		1,211		1,292
Present value of scheme liabilities		(1,410)		(1,234)		(1,310)
Deficit in the schemes recognised as a liability in the balance sheet		(130)		(23)		(18)
Associated deferred tax asset		36		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:

	2009 £m	2008 £m	2007 £m
Group income statement			
Operating profit:			
Current service cost (defined benefit plans)	(10)	(13)	(13)
Current service cost (defined contribution plans)	(2)	(2)	(1)
Exceptional pension credit	44	–	–
Credit/(charge) to operating profit	32	(15)	(14)
Finance income:			
Expected return on pension scheme assets	73	79	74
Interest on pension scheme liabilities	(79)	(76)	(63)
Net finance (charge)/income in respect of pensions	(6)	3	11
Total credit/(charge)	26	(12)	(3)
Group statement of recognised income and expense			
Actual return less expected return on pension scheme assets	10	(150)	24
Changes in assumptions underlying the present value of the scheme liabilities	(184)	115	9
Actuarial (loss)/gain recognised	(174)	(35)	33

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

7. Pensions continued

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

	Scheme assets		
	2009 £m	2008 £m	2007 £m
Fair value of scheme assets at beginning of period	1,211	1,292	1,182
Expected return on plan assets	73	79	74
Employee contributions	1	3	4
Employer contributions	39	40	50
Benefits paid	(54)	(53)	(42)
Actuarial gain/(loss) recognised	10	(150)	24
At end of period	1,280	1,211	1,292

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

	Defined benefit obligation		
	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation at beginning of period	(1,234)	(1,310)	(1,281)
Current service cost	(10)	(13)	(13)
Exceptional pension credit (see note 8)	44	–	–
Interest cost on benefit obligations	(79)	(76)	(63)
Employee contributions	(1)	(3)	(4)
Benefits paid	54	53	42
Actuarial (loss)/gain recognised	(184)	115	9
At end of period	(1,410)	(1,234)	(1,310)

History of experience gains and losses:

	2009	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets					
Amount (£m)	10	(150)	24	43	100
Percentage of scheme assets	1%	(12)%	2%	4%	9%
Experience gains and losses on scheme liabilities					
Amount (£m)	–	(2)	(16)	–	–
Percentage of the present value of the scheme liabilities	–	0%	(1)%	–	–
Total amount recognised in the Group statement of recognised income and expense					
Amount (£m)	(174)	(35)	33	27	(7)
Percentage of the present value of the scheme liabilities	(12)%	(3)%	3%	2%	(1)%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of recognised income and expense is a £156m loss (2008 £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.

Funding valuation and future funding obligations

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 and will make further additional contributions of £24m in each of the financial years from 2010 to 2017, subject to review following the next actuarial valuation at 31 March 2010.

In the 52 weeks ended 26 September 2009, the Group paid regular contributions of £15m (2008 £16m, 2007 £10m) and additional contributions of £24m (2008 £24m, 2007 £40m) in respect of the defined benefit arrangements. In addition the Group paid £2m (2008 £2m, 2007 £1m) in respect of the defined contribution arrangements.

Employer contribution rates to the defined benefit arrangements for the 52 weeks ending 25 September 2010 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 25 September 2010 will be £40m, comprising regular contributions of £16m, including £2m payable in respect of the defined contribution arrangements and additional contributions of £24m.

8. Exceptional items and other adjustments

	Notes	2009 52 weeks £m	2008 52 weeks £m
Operating exceptional items			
Strategic review costs	a	–	(12)
Exceptional pension credit (note 7)	b	44	–
Profits on disposal of properties		10	19
Losses on disposal of properties		(18)	(13)
Net (loss)/profit arising on property disposals		(8)	6
Movements in the valuation of the property portfolio			
– Revaluation adjustments	c	(52)	–
– Impairment arising from the revaluation	c	(66)	(160)
– Impairment arising on classification of non-current assets held for sale	c	(5)	(46)
Total movements in the valuation of the property portfolio		(123)	(206)
Total operating exceptional items		(87)	(212)
Exceptional finance costs and revenue			
Total cost of derivative financial instruments closed out in the period	d	(95)	(386)
Less: amounts charged against profit in prior periods	d	40	204
Movement in fair value of derivative financial instruments closed out in the period (note 9)	d	(55)	(182)
Exceptional interest on tax credits	e	4	–
Total exceptional finance costs		(51)	(182)
IAS 39 movements (note 9)	f	–	(23)
Net pensions finance (charge)/income (note 7)	f	(6)	3
Other adjustments	f	(6)	(20)
Total exceptional items and other adjustments before tax		(144)	(414)
Tax credit relating to above items		36	87
Exceptional tax released in respect of prior years	e	16	14
Tax credit in respect of change in tax legislation	e	–	12
		52	113
Total exceptional items and other adjustments after tax		(92)	(301)

^a Professional fees incurred in connection with the Group's review of strategic options for value creation

^b Relates to the impact of pension changes introduced in the period

^c Movements in the valuation of the property portfolio includes £52m of valuation adjustments, £66m of impairment arising from the Group's revaluation of its pub estate and £5m of impairment against assets transferred to non-current assets held for sale, where the expected net sale proceeds are less than the book value

^d Total cost of derivative financial instruments closed out in the period represents the total cost of terminating the derivative financial instruments closed out in January 2008 and May 2009 (see note 20 for details). Amounts charged against profit in prior periods are the movements in the values of these instruments charged to profit through exceptional finance costs – including IAS 39 movements in 2008 and 2007. Deducting these gives the movement in the fair value of the derivatives closed out, charged against profit

^e Represents the release of provisions relating to tax matters which have been settled principally relating to corporate transaction costs and qualifying capital expenditure. In addition £4m of interest arising on the settlement of prior year tax matters has been received in the period. A tax credit of £12m arose in the prior year on the release of deferred tax on hotel assets following legislative changes.

^f IAS 39 movements and the net pensions finance charge are non-cash adjustments which are excluded from adjusted profit

All exceptional items relate to continuing operations.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

9. Finance costs and revenue

	2009 52 weeks £m	2008 52 weeks £m
Finance costs		
Securitised and other debt	(167)	(174)
Exceptional finance costs (note 8)		
– movement in fair value of derivative financial instruments closed out in the period	(55)	(182)
IAS 39 movements ^a	–	(23)
	(55)	(205)
	(222)	(379)
Finance revenue		
Interest receivable	1	7
Exceptional interest on tax credits (note 8)	4	–
	5	7
Net finance (charge)/income from pensions (note 7)	(6)	3

^a IAS 39 movements represent the movements during the prior period in the fair value of the Group's derivative financial instruments which do not qualify for hedge accounting. These were terminated in January 2008 and May 2009 (see notes 8 and 20).

10. Tax expense

	2009 52 weeks £m	2008 52 weeks £m
Tax charged in the income statement		
Current tax credit:		
UK corporation tax	–	1
Amounts overprovided in previous years	(8)	(16)
Total current tax	(8)	(15)
Deferred tax:		
Origination and reversal of temporary differences	2	(36)
Adjustments in respect of prior years	(8)	1
Change in tax legislation	–	(12)
Total deferred tax (note 21)	(6)	(47)
Total tax credited in the income statement	(14)	(62)
	2009 52 weeks £m	2008 52 weeks £m
Tax on items recognised directly in equity		
Unrealised (profit)/losses due to revaluations	(12)	64
Actuarial losses on pension schemes	49	10
Share-based payments	1	(11)
Derivative financial instruments	28	14
Total tax credit on items recognised directly in equity	66	77

Reconciliation of the total tax charge

The tax credit in the income statement for the year is higher (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 29%). The differences are reconciled below:

	2009 52 weeks £m	2008 52 weeks £m
Loss before tax	(10)	(238)
Accounting loss multiplied by the UK standard rate of corporation tax of 28% (2008 29%)	(3)	(69)
Expenses not deductible for tax purposes	5	34
Adjustments in respect of prior years	(16)	(15)
Exceptional tax credit in respect of change in tax legislation	–	(12)
Total tax credit reported in the income statement	(14)	(62)

11. Dividends

	2009 52 weeks £m	2008 52 weeks £m
Amounts paid and recognised in equity		
In respect of the 52 weeks ended 29 September 2007		
– 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

12. Earnings per share

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

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

Adjusted earnings per ordinary share amounts are presented before exceptional items (see note 8), IAS 39 movements (see note 9) and the net pensions finance charge (see note 7), 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 26 September 2009:			
Profit for the period	4	1.0p	1.0p
Exceptional items, net of tax	88	21.7p	21.6p
IAS 39 movements, net of tax	–	–	–
Net pensions finance charge, net of tax	4	0.9p	0.9p
Adjusted profit/EPs	96	23.6p	23.5p
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
Net pensions finance income, net of tax	(2)	(0.5)p	(0.5)p
Adjusted profit/EPs	125	31.0p	30.6p

^a The 2008 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'.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

12. Earnings per share continued

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

	2009 52 weeks m	2008 52 weeks m
For basic EPS calculations	406	403
Effect of dilutive potential ordinary shares:		
Contingently issuable shares	1	3
Other share options	1	2
For diluted EPS calculations	408	408

At 26 September 2009, 5,483,614 (2008 4,654,653) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

13. Goodwill and other intangible assets

	Computer software £m	Goodwill £m	Total £m
Cost			
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
Additions	1	–	1
Disposals	(6)	–	(6)
At 26 September 2009	5	–	5
Accumulated amortisation			
At 29 September 2007	15	–	15
Provided during the year	4	–	4
Disposals	(12)	–	(12)
At 27 September 2008	7	–	7
Provided during the year	3	–	3
Disposals	(6)	–	(6)
At 26 September 2009	4	–	4
Net book value			
At 26 September 2009	1	–	1
At 27 September 2008	3	–	3

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

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 in 2008 related 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.

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 deemed it appropriate to value the business based on its estimated arm's length market value as at 27 September 2008. As a result, it fully provided for impairment against the goodwill associated with the business, as it did not anticipate that the market value would be sufficient to recover the goodwill carrying value.

14. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
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
Exchange differences	1	3	4
Additions	48	73	121
Revaluation	(122)	–	(122)
Disposals ^a	(37)	(52)	(89)
Impairment arising on classification of non-current assets held for sale	(3)	(2)	(5)
Classified as held for sale	59	22	81
At 26 September 2009	3,867	956	4,823
Depreciation			
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
Exchange differences	1	3	4
Provided during the year	25	99	124
Disposals ^a	(12)	(47)	(59)
Classified as held for sale	14	12	26
Revaluation	(21)	–	(21)
At 26 September 2009	72	290	362
Net book value			
At 26 September 2009	3,795	666	4,461
At 27 September 2008	3,856	689	4,545
At 29 September 2007	4,294	736	5,030

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

Certain assets with a net book value of £21m (2008 £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').

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

14. Property, plant and equipment continued

Properties

A policy of valuing the majority of the Group's freehold and long leasehold land and buildings, for accounting purposes, 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 fair value less costs to sell 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 26 September 2009 and 27 September 2008 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. It is estimated that a 1% change in the EBITDA of the freehold and long leasehold land and buildings would generate a 1% movement in their valuation.

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 2, segmental analysis, until the date of completion) for 44 individual pub restaurants owned by Whitbread plc. The hotels, which were carried at a fair value of £78m are included within 2008 disposals above. The pub restaurants acquired are included at their fair value of £85m within 2008 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.

Included within property, plant and equipment are assets with a net book value of £3,863m (2008 £3,974m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Finance leases

The net book value of fixtures, fittings and equipment includes £3m (2008 £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:

	2009 £m	2008 £m
Freehold	3,360	3,476
Leasehold:		
– unexpired term of more than 50 years	298	258
– unexpired term of 50 years or less	137	122
	3,795	3,856

^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 £3,328m and £245m (2008 £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 26 September 2009 an amount of £11m (2008 £11m) was included in the balance sheet.

15. Inventories

	2009 £m	2008 £m
Work in progress ^a	12	13
Goods held for resale	26	26
	38	39

^a Work in progress is in respect of property developments

16. Trade and other receivables

	2009 £m	2008 £m
Trade receivables	1	2
Other receivables	15	56
Prepayments	24	22
	40	80

All amounts fall due within one year.

Trade and other receivables are non-interest bearing.

17. Non-current assets held for sale

	Assets held for sale		Disposal group		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Pubs & Bars						
Land and buildings	13	9	–	1	13	10
Fixtures, fittings and equipment	2	3	–	–	2	3
	15	12	–	1	15	13
Restaurants						
Land and buildings	3	21	–	57	3	78
Fixtures, fittings and equipment	1	11	–	12	1	23
	4	32	–	69	4	101
Total	19	44	–	70	19	114
Impairment arising on classification as non-current assets held for sale	5	1	–	34	5	35

Non-current assets held for sale 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. Certain assets were disclosed as a disposal group in 2008 on the basis that the Group was in advanced discussions with potential buyers to sell these. As no agreement was subsequently reached and the assets are no longer being marketed for sale, these assets have been transferred back to Property, plant and equipment at the carrying value disclosed in the 2008 disposal group column.

The impairment charge of £5m (2008 £46m – including £11m of impairment against goodwill) 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 8. The net gain on the disposal of non current assets held for sale is included within the 'net (loss)/profit arising on property disposals' in note 8.

18. Trade and other payables

	2009 £m	2008 £m
Trade payables	96	103
Other taxation and social security	48	68
Accrued charges	73	63
Other payables	53	42
	270	276

Trade and other payables are non-interest bearing.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

19. Borrowings

	2009			2008		
	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt ^{a,b}	48	2,283	2,331	43	2,296	2,339
Other borrowings ^b	10	376	386	–	504	504
Finance leases (note 30)	1	1	2	–	1	1
Total borrowings	59	2,660	2,719	43	2,801	2,844

^a Further details of the assets pledged as security against the securitised debt are given on page 80

^b Stated net of deferred issue costs

	2009 £m	2008 £m
Analysis by year of repayment^a		
Due within one year or on demand	59	43
Due between one and two years	540	205
Due between two and five years	1,094	1,530
Due after five years	1,026	1,066
Total borrowings	2,719	2,844

^a 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), however 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, consistent with the requirements of IFRS 7.

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 26 September 2009 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 26 September 2009 £m	Expected WAL ^c
A1N	200	Floating	2011 to 2028	5.69 ^b	200	1 year
A2	550	Fixed–5.57%	2003 to 2028	6.01	401	10 years
A3N	250 ^a	Floating	2011 to 2028	5.92 ^b	250 ^a	1 year
A4	170	Floating	2016 to 2028	5.24 ^b	170	4 years
AB	325	Floating	2020 to 2032	5.25 ^b	325	4 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	274	7 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	350	15 years
C1	200	Fixed–6.47%	2029 to 2030	6.57	200	20 years
C2	50	Floating	2033 to 2034	5.44 ^b	50	4 years
D1	110	Floating	2034 to 2036	5.50 ^b	110	4 years
	2,555 ^a				2,330 ^a	

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	11 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	8 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	

^a Includes the fair value impact of £(12)m (2008 £22m) in respect of the currency swaps

^b After the effect of interest rate swaps

^c The Group has an unconditional right to continue to hold the individual note tranches through to their final maturity dates. In accordance with IFRS 7 however, 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 margin step-up dates as at 26 September 2009 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% (2008 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 26 September 2009, Mitchells & Butlers Retail Ltd had cash and cash equivalents of £91m (2008 £118m) which were governed by the covenants associated with the securitisation. Of this amount £15m (2008 £14m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions '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.

The carrying value of the securitised debt in the Group balance sheet at 26 September 2009 is analysed as follows:

	2009 £m	2008 £m
Principal outstanding at beginning of period	2,353	2,371
Principal repaid during the period	(45)	(41)
Exchange on translation of dollar loan notes	34	23
Principal outstanding at end of period	2,342	2,353
Deferred issue costs	(15)	(18)
Accrued interest	4	4
Carrying value at end of period	2,331	2,339

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

19. Borrowings continued

At 26 September 2009 the Group had the following undrawn committed borrowing facilities:

Undrawn committed borrowing facilities ^a	2009 £m	2008 £m
Unutilised facilities expire:		
Within one year	–	–
Between two and five years	167	86
	167	86

^a In addition to the undrawn amounts against the medium-term facility (see below), the Group holds an undrawn £295m (2008 £295m) liquidity facility against the securitised arrangements, sized to cover 18 months debt service, which is not available for any other purpose. This is not included in the table above.

Medium-term borrowing facilities

On 24 July 2008 the Group entered into a three year £600m term and revolving credit facility ('the medium-term 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 was set at £600m initially but reduced to £550m in December 2008. On 20 May 2009 the facility was amended to provide an additional £75m. At the same time, £75m of the facility originally due for payment on 31 December 2009 was prepaid. As at 26 September 2009 the Group had drawn an amount of £376m (net of deferred issue costs) against the facility which forms part of the 'Other borrowings' balance. On 30 September 2009 a further £75m of the facility was prepaid, reducing the outstanding facility to £475m. The movements in the facility are set out below.

At 26 September 2009 the Group had the following medium-term committed borrowing facilities:

	2009 £m
Level of facilities available:	
At 27 September 2008	600
Scheduled reduction in December 2008	(50)
Facility extension in May 2009	75
Scheduled reduction December 2009 – prepaid 20 May 2009	(75)
At 26 September 2009	550
Scheduled reduction December 2009 – prepaid 30 September 2009	(75)
To 30 June 2010	475
1 July 2010 to 31 December 2010	425
1 January 2011 to 30 November 2011	338

20. 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 and strategies are set out below.

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, the Treasury Committee regularly assesses the maturity profile of the Group's debt, alongside the prevailing financial projections and three year plan. This enables it to ensure that funding levels are appropriate to support the Group's plans.

The current funding arrangements of the Group consist primarily of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and the medium-term funding facility drawn by Mitchells & Butlers Retail (No 2) Ltd. Further information regarding these arrangements is included in note 19. 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. In accordance with IFRS 7, 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. Trade and other payables are excluded from the table; these are short-term and are disclosed in note 18.

	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
26 September 2009							
Fixed rate:							
Securitised debt ^a	(179)	(596)	(137)	(791)	(102)	(1,632)	(3,437)
Finance leases	(1)	–	(1)	–	–	–	(2)
Floating rate:							
Other borrowings	(22)	(57)	(339)	–	–	–	(418)
Other derivatives	(2)	(1)	–	–	–	–	(3)
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	(40)	(197)	(75)	(304)	–	–	(616)
Other derivatives ^b	1	(42)	–	–	–	–	(41)

^a Includes the impact of the cash flow hedges

^b Represents the £225m notional principal and forward starting interest rate swaps closed out in 2009 (see 'Derivative financial instruments closed out in the period' below)

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). Counterparties may also be required to post collateral with the Group, where their credit rating falls below a predetermined level. An amount of £18m (2008 £nil) of collateral was posted by the swap provider within the securitisation as at 26 September 2009. This is excluded from cash and cash equivalents in note 20, but is included within 'Bank & cash' in the credit exposure table below. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Exceptions are formally reported to the Treasury Committee on a four weekly basis. The Group reported in its interim statements that as at 11 April 2009, £20m of cash collateral deposits were held with the counterparties to the £225m swaps and the forward starting interest rate swaps which were retained following the property joint venture discussions in 2008. This amount was used as part of the £(95)m settlement cost of these swaps (excluding accrued interest) on 20 May 2009 (see 'Derivative financial instruments closed out in the period' below), at which point the collateral requirement was removed.

The Group's credit exposure as at 26 September 2009 was:

	2009 £m	2008 £m
Bank & cash	95	97
Other receivables ^a	15	56

^a The Group may have a right of offset against certain amounts held within this balance

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

20. Financial instruments continued

Capital risk

The Group's capital base is comprised of its net debt (analysed in note 27) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity and cash flow generation of the pub estate. By keeping debt compared to equity (see also 'Funding and liquidity risk' above) and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its bank debts (see page 83 note 19). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, vary its dividend payments and seek to vary or accelerate debt repayments. In May 2009 the Group amended its medium-term bank facility, to provide an additional £75m, which reduces to £37.5m in December 2010 and matures in November 2011. In November 2008 the Group announced that it will not consider restoring its dividend payments until drawings on its medium-term facility are adequately below £300m. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives.

Total capital at 26 September 2009 is as follows:

	2009 £m	2008 £m
Net debt (see note 27)	2,600	2,735
Total equity	997	1,175
Total capital	3,597	3,910

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 19). 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 and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk

The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its financial statements through the adoption of the hedge accounting provisions permitted under IAS 39. The interest rate exposure resulting from the Group's £2.3bn 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 facility incurs floating rate interest based on LIBOR. Drawings against this facility are partially hedged using interest rate swaps, with a notional principal amount of £150m (see 'Cash flow hedges – unsecured borrowings' on page 87). These swaps qualify for hedge accounting and movements in their mark-to-market values are recognised directly in equity, with the cumulative gain or loss transferred from equity and recognised in the income statement as the hedged elements of the facility are recognised against profit or loss.

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

Sensitivity to 100bps increase in interest rates (£m)	2009 £m	2008 £m
Interest income ^a	1	2
Interest expense ^b	(3)	(5)
Derivative financial instruments (fair values)		
– Profit before tax ^c	–	43
– Total equity ^d	128	122

^a Represents interest income earned on cash and cash equivalents (these are defined in note 27)

^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 total equity from movements in the fair value of cash flow hedges (see below)

Derivative financial instruments

Cash flow hedges

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

During the period a loss of £88m (2008 £20m loss) on cash flow hedges was recognised directly in equity. A gain of £11m (2008 £30m gain) was removed from equity and included in the Group income statement for the period.

Cash flow hedges – securitised borrowings

At 26 September 2009, the Group held 10 (2008 10) interest rate swap contracts with a nominal value of £1,105m (2008 £1,105m), designated as a hedge of the cash flow interest rate risk of £1,105m (2008 £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% (2008 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 £(107)m (2008 £1m asset).

At 26 September 2009 the Group held one (2008 one) cross currency interest rate swap contract, with a nominal value of £250m (2008 £250m), designated as a hedge of the cash flow interest rate and currency risk 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 asset of £5m (2008 £(28)m 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% (2008 5.4445%).

Cash flow hedges – unsecured borrowings

Between 11 and 12 June 2009 the Group entered into short dated interest rate swaps with a notional principal of £150m and a maturity date of 23 December 2010, which swap the LIBOR based floating interest rate on its medium-term financing facility into a fixed rate of 1.9788%. The swaps, which limit the Group's exposure to short-term fluctuations in the LIBOR element of drawings against the facility, meet the criteria for hedge accounting and are therefore accounted for as cash flow hedges. The cash flows on the swaps are settled quarterly. The interest rate swaps are held on the balance sheet at fair market value, which is a liability of £(2)m (2008 n/a).

Derivative financial instruments closed out in the period

The Group reported in its 2008 Annual report and accounts that it had closed out the hedges no longer required to support the property joint venture transaction proposed with R20 at that time, but had retained interest rate swaps with an initial notional principal of £225m as a hedge against part of its £600m medium-term facility, which amortised to £550m from December 2008. The Group's intended course of action was to refinance the medium-term facility into a longer-term secured facility. Following a deterioration in the mark-to-market deficit of the £225m retained hedge however, in order to limit its exposure to further adverse fair value movements on the hedge, whilst banking discussions continued, the Group acquired forward starting swaps on 11 March 2009, which fixed the economic fair value of the £225m swaps at an amount of approximately £(95)m. The ongoing illiquidity in the long-term debt markets meant that refinancing the medium-term facility into a longer term facility was unlikely to be possible in the near future and as a result of this, on 20 May 2009 the Group closed out both the £225m swaps and the forward starting swaps at their fair value of £(95)m excluding accrued interest.

The fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 26 September 2009 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
26 September 2009					
Cash flow hedges					
Interest rate swaps	–	–	(49)	(60)	(109)
Cross currency swap	6	–	(1)	–	5
Total	6	–	(50)	(60)	(104)
27 September 2008	1	–	(48)	(33)	(80)

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

20. Financial instruments continued

Fair values

Fair values of financial instruments are disclosed below:

	2009		2008	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments ^a held or issued to finance the Group's operations:				
Cash and cash equivalents	105	105	129	129
Cash collateral deposits	2	2	2	2
Other borrowings	(386)	(386)	(504)	(504)
Securitised debt (excluding interest rate and currency swaps)	(2,331)	(1,774)	(2,339)	(2,087)
Finance leases	(2)	(2)	(1)	(1)
Provisions	–	–	(1)	(1)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps:				
– asset	–	–	1	1
– liability	(109)	(109)	(53)	(53)
Currency swaps ^b	5	5	(28)	(28)
	(2,716)	(2,159)	(2,794)	(2,542)

^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 the element of the fair value of the currency swaps reported within net debt (see note 27)

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.

21. Deferred tax

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

	2009 £m	2008 £m
Deferred tax liability:		
Accelerated capital allowances	72	93
Rolled over and held over gains	202	200
Unrealised gains on revaluations	258	280
Depreciated non-qualifying assets	10	11
Total deferred tax liability	542	584
Deferred tax asset:		
Retirement benefit obligations (note 7)	36	6
Share-based payments	5	5
Derivative financial instruments	32	15
Short-term temporary differences	3	6
Non-trade tax losses	11	26
Total deferred tax asset	87	58
Deferred tax in the income statement:		
Accelerated capital allowances	(21)	(42)
Retirement benefit obligations	19	9
Rolled over and held over gains	(5)	6
Share-based payments	1	2
Short-term temporary differences	2	(5)
Depreciated non-qualifying assets	–	(2)
Derivative financial instruments	11	48
Unrealised losses on revaluations	(28)	(37)
Non-trade tax losses	15	(26)
Total deferred tax credit in the income statement	(6)	(47)

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £17m (2008 £14m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £5m (2008 £4m) 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.

22. Provisions

	Property leases £m
At 27 September 2008	1
Additions	–
Utilised	(1)
Amount released in the year	–
At 26 September 2009	–

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 five years (2008 six).

23. Called up share capital

	2009		2008	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8 ¹³ / ₂₄ p each	1,181,130,148	101	1,181,130,148	101
Called up, allotted and fully paid				
Ordinary shares of 8 ¹³ / ₂₄ p each:				
At start of the financial period	404,210,379	34	403,779,693	34
Share capital issued	3,193,625	1	430,686	–
At end of the financial period	407,404,004	35	404,210,379	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.

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

24. 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 26 September 2009, the trustees, Equiniti Share Plan Trustees Limited, held 1,314,605 (2008 1,092,375) shares in the Company. Of these shares, 219,899 (2008 103,995) shares are unconditionally available to employees, 222,649 (2008 319,020) shares have been conditionally awarded to employees, 845,084 (2008 648,440) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 26,973 (2008 20,920) 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 26 September 2009, the trustees, Maurant ECS Trustees (Jersey) Limited, were holding 14,995 (2008 14,995) shares in the Company.

Notes to the financial statements

For the 52 weeks ended 26 September 2009 continued

25. Reconciliation of movements in equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 27 September 2008	34	14	3	697	(3)	(16)	12	434	1,175
Share capital issued	1	3	–	–	–	–	–	–	4
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Revaluation reserve realised on disposal of properties	–	–	–	(8)	–	–	–	8	–
Total recognised income and expense	–	–	–	14	–	(71)	1	(129)	(185)
At 26 September 2009	35	17	3	703	(2)	(87)	13	315	997

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 29 September 2007	34	14	3	828	(13)	20	7	683	1,576
Purchase of own shares	–	–	–	–	(5)	–	–	–	(5)
Release of own shares	–	–	–	–	15	–	–	(12)	3
Credit in respect of share-based payments	–	–	–	–	–	–	–	4	4
Revaluation reserve realised on disposal of properties	–	–	–	(29)	–	–	–	29	–
Total recognised income and expense	–	–	–	(102)	–	(36)	5	(212)	(345)
Dividends	–	–	–	–	–	–	–	(58)	(58)
At 27 September 2008	34	14	3	697	(3)	(16)	12	434	1,175

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £210m at 26 September 2009 (2008 £228m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 19).

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 released 57,762 (2008 1,183,778) shares from treasury to employees on the exercise of share options for a total consideration of £0.1m (2008 £1.7m). No shares were acquired for treasury in either the current or prior period. The 429 shares held in treasury at 26 September 2009 had a market value of £0.0m (27 September 2008 58,191 shares held had a market value of £0.1m). The aggregate nominal value of the treasury shares held at 26 September 2009 was £37 (2008 £5,000).

During the financial period, the employee share trusts subscribed for 1,499,018 (2008 acquired 866,643 and subscribed for 430,686) shares at a cost of £0.1m (2008 £5.0m), released 1,276,788 (2008 1,260,408) shares to employees on the exercise of options and other share awards for a total consideration of £0.0m (2008 £1.6m). The 1,329,600 shares held by the trusts at 26 September 2009 had a market value of £3.5m (27 September 2008 1,107,370 shares held had a market value of £2.6m). Further details regarding the employee share trusts are given in note 24.

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 26 September 2009 was £50m (2008 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

26. Cash flow from operations

	2009 52 weeks £m	2008 52 weeks £m
Operating profit	213	131
Add back: operating exceptional items	87	212
Operating profit before exceptional items	300	343
Add back:		
Depreciation of property, plant and equipment	124	129
Amortisation of intangibles (computer software)	3	4
Amortisation of lease premiums	1	1
Cost charged in respect of share-based payments	3	4
Defined benefit pension cost less regular cash contributions	(5)	(2)
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	426	479
Movements in working capital and pension contributions:		
Decrease/(increase) in inventories	1	(1)
Decrease/(increase) in trade and other receivables	31	(7)
(Decrease)/increase in trade and other payables	(7)	39
Movement in provisions	(1)	–
Additional pension contributions (note 7)	(24)	(24)
Cash flow from operations before exceptional items	426	486
Strategic review costs	–	(12)
Cash flow from operations	426	474

27. Analysis of net debt

	2009 £m	2008 £m
Cash and cash equivalents (see below)	105	129
Cash collateral deposits	2	2
Securitised debt (note 19)	(2,331)	(2,339)
Other borrowings (note 19)	(386)	(504)
Derivatives hedging balance sheet debt ^a (note 20)	12	(22)
Finance leases (note 19)	(2)	(1)
	(2,600)	(2,735)

^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 20). This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount

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For the 52 weeks ended 26 September 2009 continued

27. Analysis of net debt continued

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 £104m (2008 £79m) plus cash deposits with an original maturity of three months or less of £1m (2008 £50m).

Cash collateral deposits

Cash collateral deposits represent monies held in escrow.

28. Movement in net debt

	2009 52 weeks £m	2008 52 weeks £m
Net (decrease)/increase in cash and cash equivalents	(24)	12
Add back cash flows in respect of other components of net debt:		
Transfers to cash collateral deposits	–	2
Repayment of principal in respect of other loans	–	2
Repayment of principal in respect of securitised debt	45	41
Repayments of/(proceeds of) issue of other borrowings	120	(322)
Decrease/(increase) in net debt arising from cash flows ('Net cash flow' per note 29)	141	(265)
Capitalised debt issue costs	(6)	9
Decrease/(increase) in net debt	135	(256)
Opening net debt	(2,735)	(2,479)
Closing net debt	(2,600)	(2,735)

29. Net cash flow

	2009 52 weeks £m	2008 52 weeks £m
Operating profit before exceptional items	300	343
Depreciation and amortisation	128	134
EBITDA before exceptional items ^a	428	477
Working capital movement	24	31
Other non-cash items	(2)	2
Additional pension contributions (note 7)	(24)	(24)
Cash flow from operations before exceptional items	426	486
Net capital expenditure ^b	(57)	(111)
Cash flow from operations before exceptional items and after net capital expenditure	369	375
Strategic review costs	–	(12)
Cash flow from operations after net capital expenditure	369	363
Interest paid	(161)	(171)
Interest received	1	7
Tax received/(paid)	21	(4)
Exceptional interest on tax credits	4	–
Dividends paid	–	(58)
Issue of ordinary share capital	4	–
Purchase of own shares	–	(5)
Proceeds on release of own shares held	–	3
Expenditure associated with refinancing	(2)	(11)
Derivative financial instruments closure costs	(95)	(386)
Corporate restructuring costs	–	(3)
Net cash flow (note 28)	141	(265)

^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

30. 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:

	2009 £m	2008 £m
Due within one year	36	42
Between one and five years	136	153
After five years	550	557
	722	752

The future minimum rentals expected to be received under non-cancellable subleases as at 26 September 2009 amounted to £27m (2008 £21m).

Operating lease receivables – Group as lessor

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

	2009 £m	2008 £m
Due within one year	7	7
Between one and five years	23	23
After five years	41	26
	71	56

Lease income recognised in the year was as follows:

	2009 52 weeks £m	2008 52 weeks £m
Standard lease income	10	10

Finance lease commitments – Group as lessee

Total future minimum lease payments due under finance leases are as follows:

	2009 £m	2008 £m
Due within one year	1	–
Between one and five years	1	1
	2	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 14).

Capital commitments

	2009 £m	2008 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	18	19

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31. Going concern

On pages 20 to 23 of its financial review the Group has provided an overview of its performance, cash flow generation and net debt movement during the period. Pages 84 and 85 set out the funding and liquidity risk faced by the Group and the borrowing facilities available to it and page 86 describes the approach to managing the Group's capital structure. Page 24 of the Risk and uncertainties note describes the measures which are available to the Group in the event of a material change in the economic climate or other significant financial impact. Having reviewed its current performance, projected cash flow and available borrowing facilities, the Directors are satisfied that the Group has adequate resources to continue to trade as a going concern for the foreseeable future and the financial statements have been prepared in accordance with the going concern basis.

32. Contingent assets and 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 arm's 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:

	2009 £m	2008 £m
Short-term employee benefits	3	3
Post-employment benefits	2	2
Share-based payments	1	1
	6	6

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

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

Five year review

Income statement information

	2009 52 weeks £m	2008 52 weeks £m	2007 52 weeks £m	2006 52 weeks £m	2005 52 weeks £m
Revenue					
Pubs & Bars	958	954	968	958	939
Restaurants	999	939	908	762	684
Retail	1,957	1,893	1,876	1,720	1,623
SCPD	1	15	18	–	8
	1,958	1,908	1,894	1,720	1,631
Operating profit before exceptional items					
Pubs & Bars	159	176	191	179	175
Restaurants	141	156	145	130	113
Retail	300	332	336	309	288
SCPD	–	11	7	–	1
	300	343	343	309	289
Operating exceptional items	(87)	(212)	(34)	16	(3)
Total operating profit	213	131	309	325	286
Interest on net debt	(166)	(167)	(147)	(109)	(103)
Exceptional interest charge	(51)	(205)	(221)	(4)	–
Net finance (charge)/income on pensions	(6)	3	11	8	3
(Loss)/profit before taxation	(10)	(238)	(48)	220	186
Taxation credit /(charge)	14	62	38	(25)	(59)
Profit/(loss) for the financial year	4	(176)	(10)	195	127
Earnings/(loss) per share					
Basic	1.0p	(43.7)p	(2.5)p	39.7p	24.9p
Diluted	1.0p	(43.7)p	(2.5)p	38.8p	24.5p
Adjusted ^a	23.6p	31.0p	33.6p	28.1p	25.0p
Dividends paid and proposed^b					
Normal dividends (£m)	–	18	57	53	54
Special dividends (£m)	–	–	486	–	–
Normal dividends per share	–	4.55p	14.25p	12.25p	10.75p

^a Adjusted earnings per share for the years 2005-2008 has been restated to exclude net pensions finance (charge)/income in line with the change in disclosure of this item adopted in 2009 (see note 1 'Adjusted profit')

^b Dividend information for all years represents interim and final dividends for the year presented

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

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. The 2005 results on a 52 week basis are unaudited.

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

	2009	2008	2007	2006 restated ^a	2005 restated ^a
	£m	£m	£m	£m	£m
Goodwill and other intangible assets	1	3	17	22	26
Property, plant and equipment	4,461	4,545	5,030	3,867	3,447
Lease premiums	10	10	11	13	16
Total non-current assets	4,472	4,558	5,058	3,902	3,489
Inventories	38	39	38	42	39
Operating receivables	39	79	68	80	77
Non-current assets held for sale	19	114	6	88	9
Operating payables	(270)	(276)	(240)	(243)	(220)
Net current operating liabilities	(174)	(44)	(128)	(33)	(95)
Total operating assets less current operating liabilities	4,298	4,514	4,930	3,869	3,394
Provisions	–	(1)	(1)	(3)	(4)
Net operating assets	4,298	4,513	4,929	3,866	3,390
External net debt	(2,600)	(2,735)	(2,479)	(2,067)	(1,625)
Derivative financial instruments	(116)	(58)	(188)	(36)	(35)
Corporate taxation	(1)	3	(18)	(22)	(60)
Deferred taxation	(455)	(526)	(648)	(426)	(435)
Pension liabilities	(130)	(23)	(18)	(99)	(151)
Balances relating to exceptional items	–	–	–	(3)	–
Non-operating receivables/(payables)	1	1	(2)	(4)	–
Net assets	997	1,175	1,576	1,209	1,084

^a Restated in respect of a prior year adjustment (see page 55 Annual report and accounts 2007)

Five year review

Cash flow information

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Operating profit before exceptional items	300	343	343	309	295
Depreciation and amortisation	128	134	129	121	116
EBITDA ^a	428	477	472	430	411
Other non-cash items	(2)	2	11	11	7
Working capital movement	24	31	8	9	16
Additional pension contributions	(24)	(24)	(40)	(20)	(30)
Net cash flow from operations ^a	426	486	451	430	404
Net capital expenditure	(57)	(111)	(99)	(583)	(110)
Operating cash flow after capital expenditure ^a	369	375	352	(153)	294
Net interest paid	(160)	(164)	(145)	(107)	(102)
Tax received/(paid)	21	(4)	(33)	(48)	(43)
Exceptional interest on tax credits	4	–	–	–	–
Normal dividends paid	–	(58)	(52)	(56)	(50)
Special dividends paid	–	–	(486)	–	–
Issue of ordinary shares	4	–	–	–	2
Purchase of own shares	–	(5)	(46)	(76)	(101)
Proceeds on release of own shares held	–	3	11	12	14
Operating exceptional expenditure	–	–	–	–	(4)
Expenditure associated with refinancing	(2)	(11)	(4)	(10)	–
Derivative financial instruments closure costs	(95)	(386)	–	–	–
Defence costs	–	–	–	(4)	–
Corporate restructuring costs	–	(3)	(4)	–	–
Integration costs paid	–	–	(4)	–	–
Strategic review costs (note 8)	–	(12)	–	–	–
Net cash flow	141	(265)	(411)	(442)	10

^a 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

26 September 2009

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	6	1,721	1,718
Current assets			
Debtors: amounts falling due within one year	7	220	197
Debtors: amounts falling due in more than one year	7	11	7
Investments		1	1
Cash at bank and in hand		–	3
		232	208
Creditors: amounts falling due within one year	8	(1,340)	(339)
Net current liabilities		(1,108)	(131)
Creditors: amounts falling due in more than one year	9	–	(886)
Net assets before net pension liabilities		613	701
Net pension liabilities	2	(94)	(17)
Net assets		519	684
Capital and reserves			
Called up share capital	11, 12	35	34
Share premium account	12	17	14
Capital redemption reserve	12	3	3
Profit and loss account reserve	12	464	633
Equity shareholders' funds		519	684

Signed on behalf of the Board

J Townsend

Director

25 November 2009

A P Fowle

Director

25 November 2009

The accounting policies and the notes on pages 100 to 106 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 26 September 2009 which comprise the parent company balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

As explained more fully in the Directors' responsibilities statement set out on page 34, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 26 September 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matter

We have reported separately on the Group financial statements of Mitchells & Butlers plc for the year ended 26 September 2009.

Nigel Meredith (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Birmingham
26 November 2009

Notes:

1. 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.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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). The financial statements 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, except for those amounts designated as being in a fair value hedge (see below).

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 employee 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 equity. Curtailments and settlements relating to the Company's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

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

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 Group 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 the profit and loss account reserve 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.

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

Derivative financial instruments

The Company used interest rate swaps and gilt hedges in the prior 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 408 of the Companies Act 2006 not to present its own profit and loss account and notes. The Company recorded a loss after tax of £47m (2008 profit of £365m), less dividends of £nil (2008 £58m).

Auditors' remuneration for audit services to the Company was £22,000 (2008 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 4 to the Group financial statements).

The consolidated financial statements of Mitchells & Butlers plc are required to comply with the Companies (Disclosure of Auditor and Liability Limitation Agreements Remuneration) Regulations 2008.

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, pensions and taxation.

Exchange rates

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.15 (2008 £1 = €1.31) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.09 (2008 £1 = €1.26).

2. Pensions

The net pension liabilities of £(94)m (2008 £(17)m), are shown net of a deferred tax asset of £36m (2008 £6m).

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 7 on pages 72 to 74 to the consolidated financial statements.

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

3. Employees and Directors

	2009 52 weeks Number	2008 52 weeks Number
Average number of employees, including part-time employees	8	9

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

4. Share-based payments

The expense recognised for share-based payments in the year is £1m (2008 £1m) 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 68 and 69.

The tables on page 69 set out awards and options granted by the Company during 2009 and 2008. 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 69 and 70.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 26 September 2009 and 27 September 2008 in relation to the employees of the Mitchells & Butlers Group are shown on pages 70 and 71.

The following table sets out awards and options granted to employees of the Company during 2009. No options under the Executive Share Option Plan or Rolled-over options were granted during the period.

	Dividend Accrued Shares ^a	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan
2009					
Number of shares/options awarded	101,071	62,660	2,093,394	4,630	4,349

^a The award of Dividend Accrued Shares during the period relates to the 2005/08 Performance Restricted Share Plan which vested in December 2008

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 26 September 2009 and 27 September 2008 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 29 September 2007	745	2,470	20
Transfers in from other group companies	–	404	–
Granted	–	1,918	8
Exercised	(173)	(628)	(7)
Lapsed	–	(409)	(1)
Outstanding at 27 September 2008	572	3,755	20
Granted	63	2,194	4
Exercised	(163)	(539)	(7)
Lapsed	(268)	(1,842)	(1)
Outstanding at 26 September 2009	204	3,568	16
Fair value of options granted during the period (pence) ^a			
At 26 September 2009	152.0	83.4 ^c	248.0
At 27 September 2008	– ^b	107.5 ^c	205.0
Weighted average remaining contract life (years)			
At 26 September 2009	0.6	3.5	– ^d
At 27 September 2008	0.6	3.4	– ^d

^a Fair value is based on the date of grant

^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 (excluding Dividend Accrued Shares) 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 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
Granted	–	–	5	196.0	–	–
Exercised	(637)	246.9	(19)	169.0	(74)	269.2
Lapsed	(950)	294.8	(5)	259.0	(482)	265.6
Options outstanding at 26 September 2009	1,776	286.6	13	262.0	239	262.1
Options exercisable						
At 26 September 2009	1,776	286.6	–	–	239	262.1
At 27 September 2008	3,363	281.4	–	–	795	264.9
Fair value of options granted during the period (pence)^a						
At 26 September 2009	–	–	114.2 ^b	–	–	–
At 27 September 2008	–	–	49.6 ^b	–	–	–
Range of prices (pence) of options outstanding						
At 26 September 2009	219.0–330.5		196.0–401.0		259.7–266.7	
At 27 September 2008	219.0–330.5		169.0–401.0		242.1–303.0	

^a Fair value is based on the date of grant

^b Weighted average fair value has been shown for Sharesave Plan

The weighted average share price during the period was 221.5p (2008 387.9p).

Summarised information about options over the Company's shares outstanding at 26 September 2009 under the share option schemes, in respect of the employees of the Mitchells & Butlers Group, is shown on page 71.

Summarised information about options outstanding, in respect of the employees of the Company, at 26 September 2009 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
	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
Range of exercise prices (pence)						
Performance Restricted Share Plan						
Negligible ^a	3,568	3.5	— ^a	–	–	— ^a
Executive Share Option Plan						
219.0	320	3.7	219.0	320	3.7	219.0
252.5	492	4.7	252.5	492	4.7	252.5
326.1	881	5.7	326.1	881	5.7	326.1
330.5	83	5.7	330.5	83	5.7	330.5
	1,776	5.0	286.6	1,776	5.0	286.6
Sharesave Plan						
401.0	2	0.5	401.0	–	–	–
259.0	6	3.6	259.0	–	–	–
196.0	5	3.5	196.0	–	–	–
	13	3.0	262.0	–	–	–
Rolled-over options						
242.1p to 303.0p	239	1.8	262.1	239	1.8	262.1

^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 11 page 77 to the consolidated financial statements.

6. Fixed asset investments

	Shares in Group undertakings £m
Cost	
At 27 September 2008	2,178
Exchange differences	3
At 26 September 2009	2,181
Provision	
At 27 September 2008	460
Provided during year	–
At 26 September 2009	460
Net book value	
At 26 September 2009	1,721
At 27 September 2008	1,718

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

	2009 £m	2008 £m
Amounts owed by Group undertakings	211	150
Group relief receivable	9	47
Deferred tax asset	11	7
	231	204

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

	2009 £m	2008 £m
Bank overdraft	16	–
Other borrowings	10	–
Amounts owed to Group undertakings	1,308	338
Other creditors	6	1
	1,340	339

9. Creditors: amounts falling due in more than one year

	2009 £m	2008 £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 20 page 87 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. 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. No derivative financial instruments were held at either the 2009 or 2008 balance sheet dates.

11. Called up share capital

Details of the amount and nominal value of authorised, called up, allotted and fully paid share capital are contained in note 23 page 89 to the consolidated financial statements.

12. Capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account reserve		
				Own shares £m	Other £m	Total £m
At 27 September 2008	34	14	3	(3)	636	633
Share capital issued	1	3	–	–	–	–
Release of own shares held	–	–	–	1	(1)	–
Credit in respect of employee share schemes	–	–	–	–	3	3
Actuarial loss on pension schemes	–	–	–	–	(174)	(174)
Deferred tax relating to actuarial loss	–	–	–	–	49	49
Loss after taxation	–	–	–	–	(47)	(47)
At 26 September 2009	35	17	3	(2)	466	464

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 £94m (2008 £17m) 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 are contained in note 25 page 90 to the consolidated financial statements.

13. Deferred tax asset

	£m
At 27 September 2008	13
Charged to profit and loss account	(14)
Charged to profit and loss account reserves	49
At 26 September 2009	48

Analysed as tax on timing differences related to:

	2009 £m	2008 £m
Share-based payments	1	2
Pensions	36	6
Non-trade deficits	10	5
Deferred tax asset	47	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 as it is exempt from providing details of transactions with wholly owned subsidiaries.

15. Contingent liabilities

The Company is a guarantor of the obligations of Mitchells & Butlers Retail (No 2) Ltd in respect of the medium-term loan facility dated 24 July 2008 with final maturity of 30 November 2011 and the interest rate swaps held by Mitchells & Butlers Retail (No 2) Ltd against £150m of the unsecured facility (see 'Cash flow hedges – unsecured borrowings' on page 87). As at 26 September 2009 Mitchells & Butlers Retail (No 2) Ltd had drawn an amount of £376m (net of deferred issue costs) against the facility (2008 £504m (net of deferred issue costs)).

Shareholder information

Electronic communication

At the 2008 Annual General Meeting shareholders agreed to change the Articles of Association to allow the Company to use its website as its main method of communication. As a result we were able to achieve a significant reduction in printing volume, benefiting both the environment and the Company from a cost perspective. The savings made continue to be invested in improving our website. We would encourage you to view our website www.mbplc.com to explore the advantages of our communicating with you online rather than in paper form. Whilst hard copy communications continue to be available to those shareholders actively requesting them, we intend to focus on our online environment where we can keep you instantly updated at regular intervals throughout the year. For instance, did you know that you can sign up to receive e-alerts on our website as well as seeing a wealth of other information about our brands including vouchers for the latest offers?

Shareholders who have been sent a hard copy of this Annual report should have also received a letter regarding the format of future shareholder communications. If you would prefer to receive an email notifying you of the publication of shareholder communications on our website please register online at www.mbplc.com/ecomms and help us to reduce our impact on the environment. If you would prefer to continue receiving documents in paper form please return the enclosed form to the Registrar in the envelope provided.

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 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 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 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 2009 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

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Registrar

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Spencer Road
Lancing
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 provider costs may vary.

Stockbrokers

JPMorgan Cazenove Limited
Merrill Lynch International

Auditors

Ernst & Young LLP

Investment bankers

Citigroup

Solicitors

Allen & Overy LLP

Key dates

2009 final results announcement	26 November 2009
Annual General Meeting	28 January 2010
Interim management statement	28 January 2010
Announcement of half-year results	May 2010
Interim management statement	July 2010
Pre-close trading update	September 2010
Announcement of 2010 final results	November/December 2010

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.

BBPA

British Beer & Pub Association.

Brands/formats

Brands trade with the same name, signage, décor and product range.

Formats trade under individual pub names and signage but consistent décor and product range.

Cash flow from operations

Net cash flow resulting directly from regular operations.

EBITDA

Earnings before interest, tax, depreciation, amortisation.

External costs

Costs influenced by outside factors, e.g. regulatory and energy costs.

FY 2008

The 52 week period ended 27 September 2008.

FY 2009

The 52 week period ended 26 September 2009.

FY 2010

The 52 week period ended 25 September 2010.

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.

MAT

Moving annual total.

National Minimum Wage

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

Net worth

The net assets of Mitchells & Butlers Retail Limited disregarding any intercompany loans within the securitised group.

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.

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.

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.



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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/AR09

CSR

www.mbplc.com/CSR

News releases

www.mbplc.com/news

Find a pub

www.find-a-pub.com



Our brands

Harvester

www.harvester.co.uk

Vintage Inns

www.vintageinn.co.uk

Toby Carvery

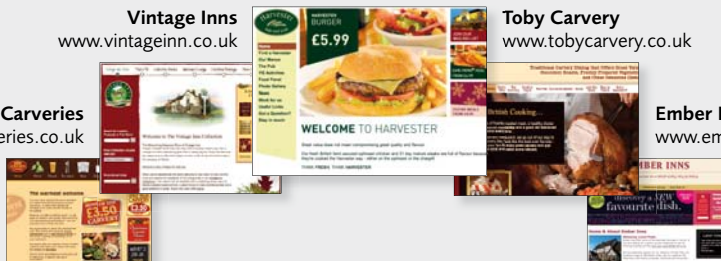
www.tobycarvery.co.uk

Crown Carveries

www.crowncarveries.co.uk

Ember Inns

www.emberinns.co.uk



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.

Premium Country Dining Group

We operate many individual pubs and pub restaurants, offering customers a great choice of food and drink. Our Premium Country Dining Group 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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