

**Making
moments
matter**

AT A GLANCE

Who are we?

We run many of the UK's most beautiful and iconic pubs. In fact, we are one of the leading restaurant and pub companies in the UK with over 1,700 businesses.

Our scale is impressive. Since 1898, Mitchells & Butlers has been at the forefront of UK drinking and eating out, currently serving around 120 million meals a year, as well as some 380 million drinks. We employ over 46,000 people in pubs, bars and restaurants that are located across the length and breadth of the UK, with over 82% of the UK population within five miles of one of our sites.

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

We remain focused on our three priority areas of building a more balanced business; instilling a more commercial culture; and driving an innovation agenda, and this has driven further success in the year with like-for-like sales up 3.5% and adjusted operating profit growth of 4.6%.

* The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.

120m

MEALS SOLD A YEAR

75%

OF VISITS ARE FOOD LED



82%

OF THE UK POPULATION LIVE WITHIN 5 MILES OF AN M&B SITE

3.5%

LIKE-FOR-LIKE SALES GROWTH



51%

FOOD MIX

46,000

EMPLOYEES



15

BRANDS AND FORMATS OPERATED
ACROSS 1,671 SITES



380m

DRINKS SOLD A YEAR

65%

REDUCTION IN FOOD WASTE IN THE
SUPPLY CHAIN THIS YEAR

£14m

ADJUSTED OPERATING PROFIT GROWTH



82%

FREEHOLD PROPERTIES

Alex
44 sites



All Bar One
57 sites

ALL·BAR·ONE

Browns
24 sites



Castle
113 sites



Ember Inns
149 sites



Harvester
178 sites



High Street
75 sites



Miller & Carter
115 sites

MILLER & CARTER
- STEAKHOUSE -

Nicholson's
77 sites



O'Neill's
37 sites



Premium Country Pubs
127 sites



Stonehouse
97 sites

STONEHOUSE
· PIZZA & CARVERY ·

Suburban
240 sites



Toby Carvery
154 sites



Vintage Inns
184 sites

VINTAGE
— I N N S —

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FINANCIAL HIGHLIGHTS

Revenue (£m)

£2,237m

Profit before tax (£m)*

£177m

Adjusted operating profit (£m)**

£317m

Adjusted earnings per share (pence)**

37.2p

* Includes separately disclosed items.

** The Directors use a number of alternative performance measures (APMs) that are considered critical to aid understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.

FINANCIAL REVIEW

See pages 46 to 49



**At Mitchells
& Butlers, our
purpose is to be
the host of life's
memorable
moments,
bringing people
and communities
together through
great experiences.**

**Here are just a
few of the ways
that we make
moments matter.**



PHIL URBAN
Chief Executive
Mitchells & Butlers plc

CHIEF EXECUTIVE'S REVIEW
See pages 12 to 15



Training the business leaders of the future

Since 2016, Mitchells & Butlers has focused on growing our population of apprentices, introducing new talent to our industry and upskilling our current employees. We offer hospitality apprenticeships nationwide in all our managed pubs and restaurants, alongside intermediate and higher-level apprenticeships in Business Management, Human Resources, Learning & Development and Business Change & Transformation for corporate employees.

Through a series of learning pathways, our apprentices are able to gain nationally recognised qualifications and transferable career skills, creating a talent pipeline that will support our business today and for years to come.

This year, 900 young people have joined our business on hospitality apprenticeships, and over 1,600 of our current employees have enrolled onto one of the apprenticeship opportunities open to them. We are delighted that 685 employees successfully completed their first apprenticeship in 2019, meaning 1,860 employees have undertaken an apprenticeship with us since its introduction in 2016. M&B now has around 2,300 apprentices within the organisation, and we are aspiring to add a further 3,200 apprenticeship starts in FY 2020.

In recognition of our continued impact on young people, this year M&B has been externally recognised by the National Apprenticeship Service, The Springboard Charity, and the CIPD for our Youth Engagement and Employment. Equally as important as external recognition, M&B moved up from 34th in 2018 to third in 2019 in the Top 100 Employers within Rate My Apprenticeship, as voted for by apprentices.

As an integral part of our apprenticeship offering, this year our Chefs' Academy was awarded the exclusive 'Princess Royal Training Award' for excellence.

Chefs' Academy was created in FY 2017 to develop internal culinary skills, and since then has grown from two locations to seven nationwide. In total, 280 chefs, both internally and externally recruited, have begun the programme this year, making Chefs' Academy one of the largest workshop-supported commis chef apprenticeship schemes in the UK.

Now in its third year of delivery, the business is reaping the benefits of the programme, with many graduates already being promoted into Kitchen Manager/Head Chef roles, as well as being awarded divisional accolades such as Head Chef of the Year. To ensure appropriate development opportunities for graduates of Chefs' Academy, the business has now launched an Advanced Chefs' Academy programme, with 39 chefs commencing this programme.

With apprenticeship opportunities from Level 2 through to Level 7, 16-year-old school leavers can now join us on an intermediate apprenticeship and progress through a range of qualifications culminating in a BA (Hons) degree. There is not one learning pathway which fits all, but here at M&B we can offer a true alternative to the traditional academic route.



We have the building blocks in place to help create a talent pipeline, and produce our business leaders of the future.



2,300

The number of apprentices within the organisation today.

3,200

We aim to add a further 3,200 apprentices in FY 2020.

Top 3

M&B rated third in the Top 100 apprentice employers, as voted for by apprentices themselves.



RISING STAR

This year, we were delighted to see Joe Buck, a Toby Carvery apprentice, become the National Apprenticeship Service Awards' first ever 'Rising Star' winner!

These prestigious awards showcase how apprenticeships have made a real difference to both individuals and organisations, so we were proud to see Joe rewarded for the three apprenticeship courses he has completed in just over three years with us.

JOE'S STORY

Having left school knowing he wanted to work in hospitality, Joe joined Mitchells & Butlers in 2016 on a Level 2 Hospitality Services apprenticeship, offering him a structured career path with clear goals. Joe quickly gained a range of skills across the business at Toby Carvery Aintree and progressed this further with a Level 3 Hospitality Supervisor qualification which helped him develop skills in leadership and management.

It was here Joe really stamped his mark. Becoming a 'Master Carver', one of the best in the business, Joe attended menu training and led the communication of changes back to his business. A pillar of continuity in the kitchen, he trained new Kitchen Team Leaders who joined the business.

Joe's initiative had a profound effect on the business. He created new innovative processes to minimise leftovers and improve efficiency. Joe's impact also contributed towards improved Guest Satisfaction with scores rising from 60% to 80% in two months. Not content with just this, Joe helped deliver a record breaking Grand National week including a daily and weekly sales record!

And where will he be in five years? Joe says "I'll definitely be running a pub somewhere! The best thing about Mitchells & Butlers is that you can move across brands, so I would love to have a go in one of our other brands. I would hope in five years I can be a General Manager – working towards becoming a Retail Business Manager. I just want to keep progressing!"

Reducing environmental impact by recycling kitchen hardware

In 2018, as part of our Ignite activity and our commitment to the environment, a project was initiated to reduce our expenditure on new catering equipment by refurbishing and reusing old, formerly redundant, kit.

Previously, when our pubs and restaurants were converted to other brands, kitchen equipment that was no longer needed to deliver the new menu was removed and put into landfill. This was also the case when we remodelled kitchens as part of our regular maintenance programme. There was, therefore, an opportunity to reduce our environmental impact and expenditure by reconditioning equipment that was deemed to still have economic life.

The process is straightforward. Our Kitchen Design Managers grade the relevant equipment from 1 to 4, with anything graded 1–3 deemed as fit to be reused elsewhere in our estate and anything graded 4 being stripped down for spare parts to be used on other pieces of kitchen kit. The kit is then transported to a central warehouse from where our contractors, Caterline, assess, clean, test, service and deliver the refurbished equipment to a set cost structure.

Our operational teams have embraced the new way of working with comments such as “the equipment looks brand new”, “it’s hard to tell the difference” and “it’s good we’re doing our bit for the environment” during the first year. Examples of the initiative in action include: Toby Carvery Maidstone where we saved over £60k by using refurbished equipment; and All Bar One Aberdeen which benefited from serviced equipment from another All Bar One site.

In the two years that the project has been running we estimate that, through the refurbishment and reuse of kitchen equipment, we have reduced our use of landfill by 274 cubic metres.



There was an opportunity to reduce our environmental impact and expenditure by reconditioning equipment.



274m³

We have reduced our use of landfill by 274m³.



ELLIE WRIGHTON

The driving force behind the project was Ellie Wrighton, Kitchen Design, Equipment and Capacity Manager:

"I realised that most of the kitchen equipment we disposed of was not broken but just did not fit into the new offer post investment.

Two years ago, motivated by the madness of disposing of kit that was still working as well as Phil's mantra of 'treat this like it's your own money', I designed a process by which previous redundant kit was assessed, stored, cleaned, tested, and serviced for use elsewhere – reducing our use of landfill and saving the Company some money.

Working closely with our contractors, especially Caterline, we established a storage facility in Dudley and began to make it happen.

The team and I are really proud of what has been achieved in the last couple of years and the potential for further benefits going forward."

Minimising waste, helping to fight hunger

Over the last few years, we have focused on reducing our food waste. Centrally, we have reviewed the products we use for each of our brands' menus and have identified items which are low usage and, therefore, have a higher risk of being wasted. We have also worked with our suppliers to optimise the pack sizes of goods to ensure that we get the right amount of each product for a particular business. These are a couple of examples of how we have reduced food waste in our supply chain by 65% in the last year.

Given the scale of our food operation, with over 120 million meals sold every year in our pubs, bars and restaurants, there are inevitably some food items and ingredients that are surplus to requirements as a result of factors such as the weather, menu revisions and changes in consumer taste. In the past we have not had a mechanism to redistribute these items before they went out-of-date.

This year we will begin to redistribute surplus food that's still good to eat to charities and community groups, working with food redistribution charity FareShare.

Whilst this work is focused on our supply chain, we are also working hard to reduce levels of food waste in our pubs, bars and restaurants. Sometimes a small amount of surplus food is difficult to avoid, and we are testing options to redirect unavoidable surplus food from our sites to avoid it being wasted. We are exploring opportunities with a number of partners including working with Too Good to Go in a selection of our Toby Carvery sites.



This year we will begin to redistribute surplus food to charities and community groups, working with food distribution charity FareShare.



65%

We have reduced our food waste in our supply chain by 65% in the year.

**FARESHARE**

FareShare are the UK's largest charity fighting hunger and food waste.

Last year they redistributed almost 21,000 tonnes of food through their network of 22 regional centres reaching almost 11,000 charities and community groups in 2,000 towns and cities up and down the country. These organisations then turn this food into meals, totalling some 47 million last year. The organisations they supply provide life-changing support (as well as lunch and dinner!) and include homeless hostels, older people's day centres and breakfast clubs.

Commenting on the partnership, FareShare's Commercial Officer Samantha Lai said: "We're very excited about the prospect of working with Mitchells & Butlers to distribute their good-to-eat surplus food to charities supporting vulnerable people, and are looking forward to receiving our first delivery of surplus next year."

Making memorable moments: Mother's Day

Special occasions are important to our guests and delivering a great experience on those days is one of the things which make us proud to be part of Mitchells & Butlers.

Mother's Day is a particularly important day to our brands; it is the second largest sales day after Christmas Day and provides us with the opportunity to create memorable moments for our guests.

Our guests like to be able to plan special events, and our enhanced bookings platform enables them to do so quickly and easily. The improvements we have made to the booking process means fewer steps to complete the booking and immediate confirmation of a table. Visibility of bookings also allows our managers to plan and prepare ahead for the day so that the atmosphere and service is always of the highest standard.

We know that our guests like to be able to indulge and treat their loved ones on these days, so many of our brands offer a fixed-price menu giving our guests that special experience as well as transparency over the cost. Our marketing, food development and operational teams work hard to ensure that the fixed-price menus provide great quality food to complement the celebratory importance of the day.

With these background elements in place, our engaged teams are able to deliver the high-quality service which makes days like these, when family and friends come together, truly memorable.



Mother's Day is our second largest sales day after Christmas Day and provides us with the opportunity to create memorable moments for our guests.



1.1m

Over the Mother's Day weekend this year we sold 1.1 million main meals, the equivalent of over 650 meals per pub.



BUT DON'T TAKE OUR WORD FOR IT
Here is some feedback from our guests:

"Mother's Day Heaven! Delicious, hot food. The staff were lovely and couldn't do enough for us, would 110% recommend and we look forward to returning very soon."

Premium Country Pub guest

"The Manager went out of his way to accommodate us all on Mother's Day, our lovely waitress was excellent and we all enjoyed our food. Will definitely be going back."

Toby Carvery guest

"Lovely Mother's Day dinner with my family. Friendly staff and great food. Will definitely go back. Lobster was amazing! Thanks to the chef and team for such great presentation and service."

Miller & Carter guest

A company positioned for further success in the future

This year we are delighted to see the sustained efforts of our teams across the business translate into a strong financial performance despite the challenging cost environment and uncertain political backdrop. We have seen trading momentum continue to build and efficiency gains delivered through our Ignite programme. As a result, operating profit grew by £42m against last year and earnings per share increased by 36.7%.

We have remained steadfast in the application of our capital allocation strategy which facilitates the pay down of debt and transfer of value to equity, to the long-term benefit of our shareholders. The successful execution of our clear strategy, which is built around our purpose, leaves me confident that we are positioning the Company for further success in the future.

The people within the business are the driving force behind this success and I would like to take this opportunity to thank them for their continued dedication and hard work.

OUR PURPOSE

At Mitchells & Butlers we have a proud and long history of serving the communities we operate in. Over many years, our pubs, bars and restaurants have acted as a meeting place, in the heart of the community, where people of all backgrounds can get together and socialise. We believe that this sense of community is as important now as it was then and, therefore, feel that it is important for venues such as ours to be maintained and operated responsibly for the benefit of all. Our strategy is built around our purpose which is to be the host of life's memorable moments, bringing people and communities together through great experiences.

This sense of community is ingrained in all aspects of our business, both in our sites and within our central functional teams, and we understand the importance of protecting those communities and the environment around them. We are taking our responsibility in this regard seriously, and have developed a plan to increase the positive effects we can have on society and the communities we work in and reduce the negative impact our business and operations have on the environment.

Later in this report we bring to life how we make our purpose live in the business, to the benefit of all stakeholders, through a series of case studies and interviews.

OUR CULTURE

We are seeing the benefits of the business transformation. The collective ambition which has been fostered is reflected in the culture of the organisation which, with careful guardianship, will continue to drive performance in the future. The Board and the Executive team have a lead role in shaping and supporting the culture of the organisation and our ambition is to create a responsible and inclusive environment which allows all of our people to thrive. In the year, Dave Coplin has taken the responsibility of representing employees' voices on the Board, with a number of events to gather views which will ensure that the perspective of our site and corporate teams is always considered as a key factor in making our business decisions.

Our people are our greatest asset and we were delighted to see engagement continue to improve over the last financial year. This is testament to the positive team culture within the organisation which means that, despite the challenges being put to teams to deliver our numerous Ignite initiatives, we continue to develop people who enjoy working together and with us.

OUR VALUES

The values we hold ourselves accountable to across the business ensure that all of our people are working collectively to create an environment which supports our purpose, working in union with our stakeholders.

The values we operate to are Passion, Respect, Innovation, Drive and Engagement. We believe these are the key elements needed to support the culture which allows the business to excel. Each team has the autonomy to bring these values to life in their day-to-day roles and feedback on the perception of how these values live in the business is a crucial part of our engagement survey.

OUR BOARD

In February and March, we extended the depth of experience of the Board, welcoming Jane Moriarty and Susan Murray. Jane Moriarty, who is a Fellow of the Institute of Chartered Accountants in Ireland, is currently a director of NG Bailey Group Limited, Quarto Group Inc., Martin's Properties Holdings Limited and Nyrstar NV and was previously a senior advisory partner with KPMG LLP.

Susan Murray, who has been appointed as the Board's senior independent director, brings valuable insight from a number of current and previous board positions including Compass Group PLC, Pernod Ricard SA, Imperial Brands PLC and Ei Group plc as well as being a former Council Member of the Advertising Standards Authority and, currently, Hays PLC, Grafton Group PLC and William Grant & Sons Holdings Limited. In her executive career, amongst other roles, Susan was Director of International Marketing of Grand Metropolitan's IDV business, Worldwide President and Chief Executive of Smirnoff's vodka business and subsequently Chief Executive of Littlewoods.

I believe that the skills and attributes of our Board members provide a diverse range of views and experience. The collective strength of the Board is realised through open and engaged discussions. The stewardship of the Board has been instrumental in repositioning the business over recent years and its focus will continue to be on the long-term success of the Company for all of our stakeholders.

BOB IVELL

Chairman
Mitchells & Butlers plc



The pub holds a special place in its guests' hearts. We want to preserve that by delivering real benefits to the communities we work in.



CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Go to page 52 to hear how the business has been managed to drive performance over the past financial year.



We are delighted with the strong performance this year

The momentum we have built demonstrates that we have stabilised the profitability of the business, which was a key milestone having previously returned the business to sustained sales growth.

The result was driven by a strong sales performance, with 3.5% of like-for-like sales^a growth, which was broad-based with all brands delivering like-for-like sales growth. This is a strong indicator that our recovery is not simply about capital investment and reflects the impact of the numerous workstreams under our Ignite change programme. It further reinforces the belief that it is the aggregate impact of all the initiatives we are undertaking that is key to moving the business forward, as opposed to any silver bullet.

Equally pleasing was the fact that we managed to grow our profit conversion percentage, despite the continuing external cost inflation. This is the output from all the work done on efficiency drivers under Ignite.

The review that follows updates you on our progress in the year against our three strategic priorities; outlines our current view of the market in which we operate; and updates on current trading in the first seven weeks of the new year and the outlook.

Overall, we are confident of being able to maintain the momentum we have built into the new financial year. Whilst there are still macro factors to consider, we believe we have the business moving in the right direction to generate value for all of our stakeholders.

BUSINESS REVIEW

This has been a strong year for Mitchells & Butlers. The work we have undertaken, principally through our Ignite programme of initiatives, is driving a strong trading performance and generating profit growth whilst we continue to invest in our estate and pay down debt.

Like-for-like sales^a grew by 3.5%, with strong performances across all of our brands contributing to continued, consistent outperformance of the market^b. Within this, our uninvested estate^c grew by 1.5% demonstrating breadth of performance across our portfolio. Total sales grew by 3.9% over the year.

Adjusted operating profit^a of £317m grew by £14m against last year. Ignite initiatives focusing on sales and efficiency enhancements have resulted in adjusted operating margin^a growth of 0.1ppts, despite the inflationary cost headwinds which continue to impact our sector. On a statutory basis, profit before tax of £177m grew by 36.2% against last year.

OUR STRATEGIC PRIORITIES

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

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

Our continued progress across each of these priorities has been instrumental in the strong performance during the year.

Build a more balanced business

Our estate comprises 1,748 pubs, bars and restaurants, of which more than 80% are freehold or long-leasehold. Our focus in this area is to optimise the balance of brands across the estate in order to create long-term value. During the year, we continued to execute our plan focusing on improving the quality of the estate through premiumisation and amenity upgrades.

We completed 240 remodels and conversions in FY 2019 (FY 2018 232) and remain on course to deliver a 6–7 year cycle of investment, from the 11–12 year cycle of previous years. Ordinarily we expect a drag on profit in the year of investment due to lost trade during closure and the cost associated with opening the invested business. This year we have been focusing on enhancing the 'in year' return of our investment projects and have eliminated profit drag by reducing closure time, more efficient use of resources and setting businesses up for success from the first day of trading. As a result, return on investment^a for conversion and acquisition projects increased to 21%, the strongest we have seen for many years.

Our remodel returns^a have also improved, increasing to 34% for projects completed in the financial year. Our remodel programme is designed to enhance the amenity and appeal of sites which remain within the same brand, giving the opportunity both to delight existing, and attract new, guests. The remodel programme provides a vehicle through which brands can continue to evolve and innovate in the highly competitive market in which we operate.

We continue to search for new areas to create value. Miller & Carter Frankfurt opened in August and gives us an opportunity to test this successful offer in a new market.

We have been considering the environmental impact of our investment programme and, where possible, have refurbished existing kitchen equipment and furnishings to be used in new projects. In so doing we have saved 500 pieces of equipment from landfill which equates to 274m³. In addition, our new Edinburgh lodge has been built to high environmental standards and we are continually looking for opportunities to improve the sustainability credentials of our buildings to reduce our use of natural resources.

"

We have stabilised the profitability of the business, a key milestone having returned the business to sustained sales growth.

"



Instil a more commercial culture

Instilling a commercial mindset across the organisation has been instrumental in driving the turnaround in trading performance over the past two years. In our sites, managers have been equipped with the knowledge to confidently grow sales in their local markets and have been provided with systems which assist them in running their businesses more efficiently. Centrally, our procurement team continue to leverage our buying power and during the year have mitigated £6m of inflation costs across food, drink and logistics.

Centralisation of procurement and stock management has also allowed us to reduce the level of food waste in our supply chain during the year. Through product and pack size review we have reduced food waste by 65% compared to last year. During the year we also began working with FareShare who will take the unavoidable waste from our supply chain and distribute it to charitable organisations which aim to bring people together through food and social interaction. We are also working hard to reduce food waste in our sites, aided by investment in a more sophisticated stock management system. In addition, we are exploring opportunities to redistribute food from sites when we have a surplus, for example we have trialled Too Good to Go in Toby Carvery.

Our enhanced labour deployment systems, in combination with a specialist team of system experts, continue to deliver improved efficiencies. The system generates accurate deployment schedules, individual to the trading patterns of a specific business, enabling the manager to deploy staff in the most efficient way. Our team of experts help managers to get the most out of the system and to optimise labour deployment in their business.

Drive an innovation agenda

An innovation mindset continues to be a priority for our business. Innovation takes place at all levels of the business from single product and process development to our organisation-wide digital strategy. Our digital strategy represents an opportunity to unlock value by facilitating agile integration with new technology. As consumer

behaviour evolves, we are more able to provide flexible solutions to accommodate changing needs. Technology and the resulting data also provide us with the insight to improve our understanding of the requirements of our guests and how we can fulfil those requirements and offer even better experiences.

During the year we have developed our technology to facilitate an improved online booking experience, have developed an employee app allowing our staff greater flexibility and have continued to work with Just Eat and Deliveroo, with 273 sites now offering delivery. In addition to this, we have three delivery only brands in trial, utilising existing kitchens which have additional capacity.

The George at Harpenden, a new all-day concept which we opened last year, has been performing well. The offer is a premium suburban concept which aims to appeal across all day parts with flexible space, which is appropriate for a range of occasions.

We are increasingly supporting innovative companies finding sustainable solutions for our industry, as well as working collaboratively with other organisations in our sector to share learnings and best practice in addressing the environmental challenges we are faced with.

Ignite

Ignite is the internal name used for our focused programme of work underpinning the longer-term strategy. Ignite initiatives have been instrumental in driving the turnaround in trading performance and profitability and have continued at pace in the year. Ignite 2 initiatives are in place to continue to deliver benefits in the current financial year and our next stage, Ignite 3, will be developed during the coming year.

An example of an Ignite 2 initiative which was rolled out during the year is the enhancement of our booking platforms. We have simplified the booking process by reducing the number of steps a guest needs to take to book a table. Booking conversions have increased by 1.3ppts as a result of this more seamless experience.

Centralised pricing process allows us to identify pricing opportunities and move quickly to realise them. In the year we have streamlined this process and effectively utilised our till software to enable centralised changes to be activated in line with changes to local market dynamics.

During the year, we have systematically targeted leased businesses which were underperforming expectations. A focused team has identified and implemented solutions to enhance the performance and profitability of these sites, and, as a result, we have improved the uninvested trading performance of these sites by over £1m in the financial year.

Contributing to our improved return on invested capital, we have invested in software which enables us to match specific guest criteria against a site location. This technology enables us to make data driven investment decisions to ensure that each site operates under the brand which most appropriately matches the needs of the population around it.

PEOPLE

Our fantastic team of over 46,000 people across the business, is critical to delivering the all-important experiences which guests have with us. We rely on our people to uphold the highest standards whilst making each visit personal and memorable. That is why attracting, training and retaining great people is key to our organisation. We are delighted, therefore, that our engagement scores have improved across all cohorts and that team turnover has reduced by 3ppts to 81%.

We are proud of our training and progression opportunities. We are committed to providing progression opportunities and development to our people facilitated through training and a strong centralised HR function. Our apprentice programme continues to grow: in the year 900 young people have completed an apprenticeship scheme; and 1,600 existing employees have enrolled on a course. We now have seven programmes available up to bachelor's degree level. We believe that our apprentice scheme will provide excellent future talent to our organisation, and we were delighted to be recognised externally by the National Apprenticeship Service, The Springboard Charity, the BII and the CIPD for our Youth Engagement and Employment.

CURRENT TRADING AND OUTLOOK

In the first seven weeks of the new financial year like-for-like sales^a have grown by 1.4% having continued to outperform the market^b in a period of adverse weather.

A return to profit growth in the last financial year represents significant progress in the face of inflationary cost headwinds impacting the sector. We have now started the new financial year with like-for-like sales^a remaining consistently ahead of the market and a new wave of initiatives from our Ignite programme of work under development.

The market remains challenging with a high level of macro uncertainties, but we will remain focused on maintaining a strong balance sheet and reducing our net debt whilst positioning the business to generate value for our stakeholders.

PHIL URBAN

Chief Executive
Mitchells & Butlers plc



21%

Return on investment^a for conversion and acquisition projects.

£14m

Adjusted operating profit^a grew by £14m to £317m.

- a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.
- b. As measured by the Coffey Peach business tracker.
- c. Uninvested estate refers to sites which have not received investment in the last year.

People still want to go out and treat themselves

MARKET TRENDS

Our sector remains in growth, forecast to be 1.3% in 2019, with a number of key consumer trends impacting the industry:

RESTAURANT SUPPLY

-3.4%

Restaurant supply fell by 3.4% in the year to June 2019.

ACCESS TO TALENT

A challenge for the industry as a whole and impacted by Brexit. Focus on reducing turnover and developing own talent through training and apprenticeships and delivering on our people promise.

RISING CONSUMER RESPONSIBILITY

43%

43% of the UK population want to eat more healthily than they were doing five years ago.

Source: MCA UK Eating Out Report 2019/CGA Outlet Index

PREMIUMISATION

Premium drinks, increased food quality and aspirational décor is the focus for growth brands.

THE EXTERNAL ENVIRONMENT

The eating out industry continues to face challenges, including rising costs and supply which has, over recent years, outstripped demand. The result of these factors has been a number of CVAs and business closures amongst our competitors, and, in the twelve months to June, the number of restaurants in operation fell by 3.4%. This reduction in sites was evenly spread across the UK.

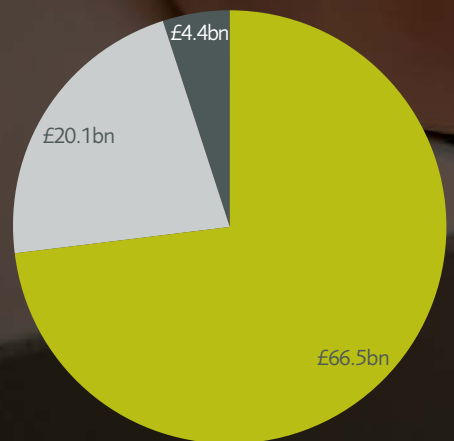
However, the industry as a whole remains in revenue growth; forecast to be 1.3% in the year to September 2019. This suggests that, despite reported fragile consumer confidence, people ultimately still want to go out and treat themselves to social occasions.

There are a number of key trends impacting the industry. Consumers are increasingly seeking higher quality food when eating out, with a focus on superior ingredients and sourcing. These factors have resulted in the continuing trend of increased spend per visit and a number of brands have premiumised their food offers and amenity in response to this changing consumer behaviour. Premiumisation is also supported by consumers' increasing desire for healthy options, with 43% of the population stating a desire to eat and drink more healthily than they were doing five years ago. To consumers of this mindset, high quality ingredients, healthy cooking methods and nutritionally beneficial meals command a higher price point and, therefore, there has been a growing proportion of offers targeting this trend.

Busy lifestyles have led to consumer demand across all day parts as people increasingly fit in social occasions during different parts of the day, with breakfast growth outstripping any other day part. As a result, a number of brands have evolved with the intention of creating an offer which is competitive across the whole day. The impact of this is increased capacity from existing restaurants without an increase in the number of sites, compounding the long-term increase in supply in the market. Brands must consider their position in the market for each timeslot they are open to trade and must remain competitive across their trading hours in order to maximise the profitability of their offer.

Total eating out market

£91bn



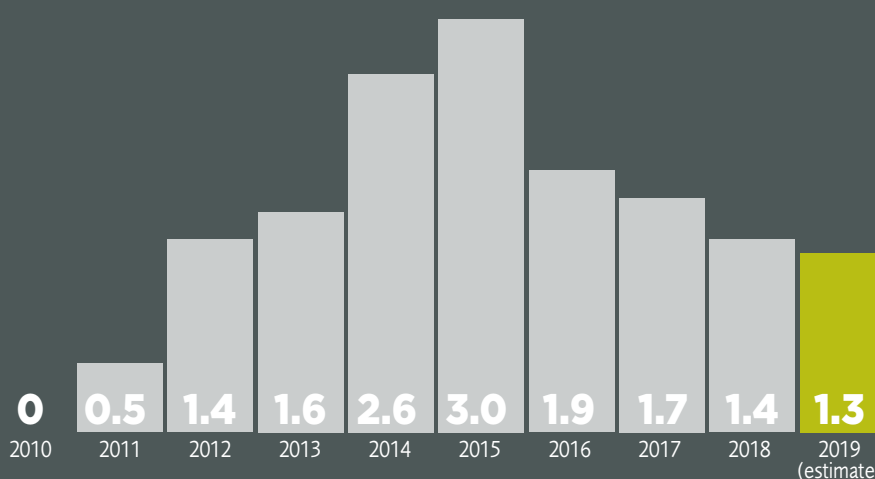
■ Hotels, Pubs & Restaurants
 ■ Retail, Travel & Leisure
 ■ Contract catering

Source: MCA UK Eating Out Market Report 2019

Delivery and takeaway remain areas of growth in the industry facilitated by aggregators which allow consumers the convenience of a range of cuisines delivered to their homes. The delivery sector has seen rapid growth over recent years, a trend which looks set to continue. Until now, delivery has largely been an addition to the traditional restaurant model. However, as the opportunity in this market grows there has been increasing introduction of delivery-only brands and the use of 'dark kitchens'. Strategic participation in this area of the market is likely to be a key differentiator in performance over the coming years.

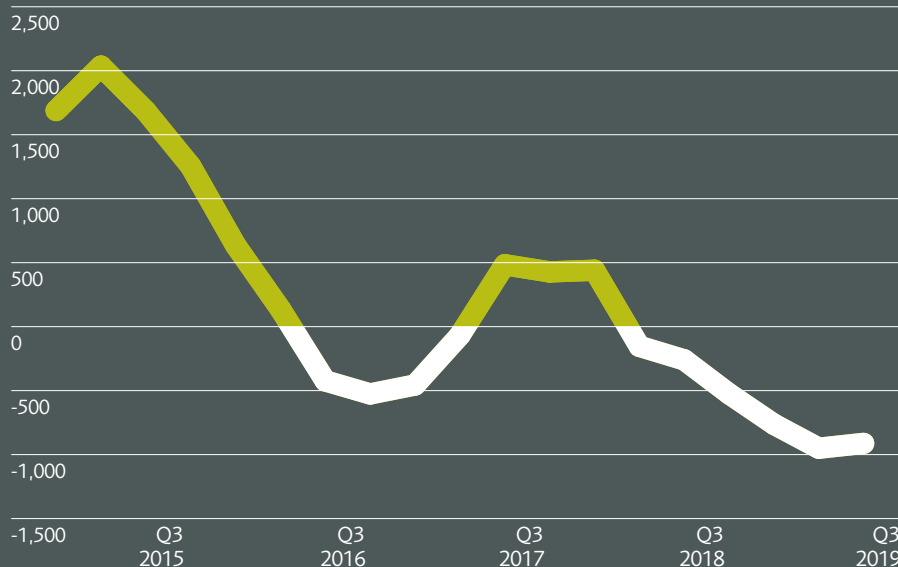
The UK political and economic environment remains uncertain. The impact of Brexit remains unclear, and, aside from macro-economic consequences, the specific areas of material impact for our business are likely to be increases in costs and the reduction of availability of goods, and implications of restrictions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

UK restaurant sales growth (%)



Source: MCA UK Eating Out Market Report 2019

Net MAT UK restaurant openings



Source: CGA Outlet Index

The role sustainability goals play in our business



The 17 UN Sustainable Development Goals (SDGs) are the widely accepted blueprint to achieve a more sustainable future, seeking to address the global challenges we currently face. The goals were agreed in 2015, since when businesses and governments across the world have been using them as a guide to meet environmental, economic and societal challenges.

On analysis of the underlying, specific ambitions of the 17 UN SDGs, 12 have been identified as directly applicable to Mitchells & Butlers by being within the Company's scope of impact. We have therefore reviewed our approach to sustainability during the year and have developed a new strategy designed to increase our positive effect on communities and reduce the negative effect of our operations on the environment. By aligning our sustainability strategy with the identified 12 UN SDGs, we aim to ensure that focus remains on key areas of risk and opportunity which enable us to more effectively contribute to global priorities.

The sustainability strategy we have developed in the year has been built around three pillars, namely sourcing, community and resources. The activity under these pillars is designed to address the SDGs we have identified. Given the importance and scale of the work we have built a governance structure around the strategy to support the change needed, including a Board level committee.

EXTERNAL TARGETS

We have set targets which are measurable and stretching and which align with wider UK ambitions. We have also introduced greenhouse gas emissions and food waste reduction as key performance indicators as they are key to improving the sustainability of our operations from an environmental perspective. We will report our progress against these targets annually within this report.

STRATEGIC PILLARS

The identified UN SDGs and alignment to our strategic pillars are shown on the facing page. For each of the pillars we have defined our objective, key actions and targets.

OUR THREE STRATEGIC PILLARS:

- 1. SOURCING
- 2. COMMUNITY
- 3. RESOURCES

1. GREENHOUSE GAS EMISSIONS

-25%

Target: Reduce greenhouse gas emissions by 25% by 2030 (measured as GHGe/meal)

2. FOOD WASTE

-20%

Target: Reduce food waste by 20% by 2025

3. PLASTICS

Zero

Target: Remove unnecessary single use plastics by 2021

4. RECYCLING

80%

Target: Increase proportion of waste recycled to 80% by 2025

SOURCING

Relevant SDGs



Objective

Reduce the negative impact of our food and drink supply chain on greenhouse gas emissions, biodiversity and deforestation

Key actions

- Measure the emission targets of our supply chain to identify opportunities to reduce impact
- Balance the animal welfare, emissions, biodiversity and deforestation impact on sourcing decisions
- Tailor menus to increase the number of items that have a lower negative impact on the environment
- Communicate sourcing decisions to customers

External target

1. Greenhouse gas emissions
2. Reduction in single-use plastic usage

COMMUNITY

Relevant SDGs



Objective

Increase the positive effect on people impacted by the business, be they employees, customers or the wider community

Key actions

- Develop a genuine culture of openness and trust as a basis for true community focus
- Understand the welfare of all levels of employees and provide relevant support
- Facilitate healthier lifestyles by providing information and choice on all menus
- Develop strategic partnerships with charities utilising the specific skills and opportunities within the business to add genuine value

External target

1. Engagement scores
2. Net promoter score

RESOURCES

Relevant SDGs



Objective

Reduce the use of natural resources and find opportunities to contribute to the development of a circular economy

Key actions

- Use emissions footprint to find opportunities to reduce impact
- Build a plan to reduce consumption of water, directly and in our supply chain
- Make estate more sustainable by using appropriate building materials and ensuring that our businesses have the right equipment in place to minimise resource usage
- Reduce operational food waste and donate unavoidable surplus food to charities

External target

1. Greenhouse gas emissions
2. Reduction in food waste
3. Reduction in single-use plastic usage
4. Increased levels of recycling

Our strategy aims to deliver long-term sustainable shareholder value through organic and sustainable growth

Through ensuring we have a balanced estate; instilling a more commercial culture; and driving an innovation agenda, we aim to generate value from the business whilst reducing the negative effects our operations have on the environment and finding opportunities to create a positive impact.

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.



BUILD A MORE BALANCED BUSINESS

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

FY 2019 progress

- Maintained focus on investment in capital activity with investment in the year of £152m
- Completed 247 capital projects in the year, maintaining a six to seven year investment cycle
- Strong returns^a generated of 21%
- Acquired seven sites and disposed of ten sites which did not fit into our estate strategy
- Continued to progress partnership with Ego Restaurants with 19 sites now open



FY 2020 priorities

- Focus on enhancing asset value through remodelling sites where we believe increased value can be unlocked
- Make further selective acquisitions where we feel they add value to the estate, and disposals where we feel we have extracted maximum value
- Develop a new build site with top sustainability credentials in order to test options with potential to be rolled out to further properties

Sustainability

- Refurbished 500 items of kitchen equipment saving 274m³ of landfill space
- Identify opportunities to reduce our consumption of natural resources across the estate
- New lodge in Edinburgh built to high sustainability standards

LINK TO KEY RISKS 1A, 2A, 2I, 2J

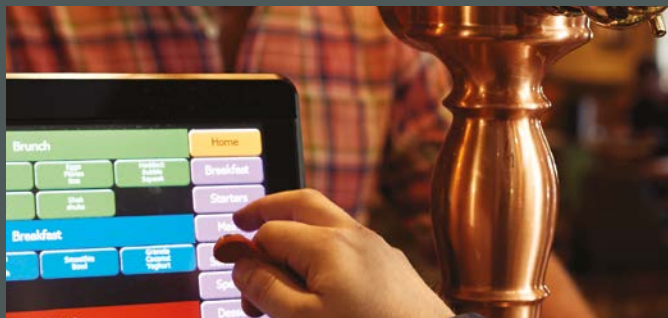
See pages 40 to 44



LINK TO KPIS 2, 3, 4, 5

See pages 38 and 39





INSTIL A MORE COMMERCIAL CULTURE

- Empower teams across the business to make changes to facilitate sustainable growth
- To engage our teams in delivering outstanding guest experiences
- To act quickly and decisively to remain competitive in our fast-changing marketplace
- Provide training and development opportunities which allow our people to thrive within the business

FY 2019 progress

- Mitigation of £6m of food, drink and logistics cost headwinds through continued efficiency savings
- Smart approach to pricing has allowed us to react more quickly to changes in local market conditions
- Continued use of IntelliQ to identify suspicious transactions has delivered significant benefit
- Employee app developed and launched facilitating greater working flexibility
- Further advances in guest engagement with continued focus on social media response resulting in an average score across the business of over 4 out of 5
- Rollout of removal of cash expenditure for sundry expenses to increase visibility, and control and identify scale purchasing opportunities



FY 2020 priorities

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

Sustainability

- Food waste in the supply chain reduced by 65% due to range review and rationalisation
- During the year 1,030 of our people gained progression opportunities to management level and through moves to larger businesses
- In the year 900 young people joined us through apprenticeship schemes and 1,600 of our existing employees enrolled onto an apprentice opportunity

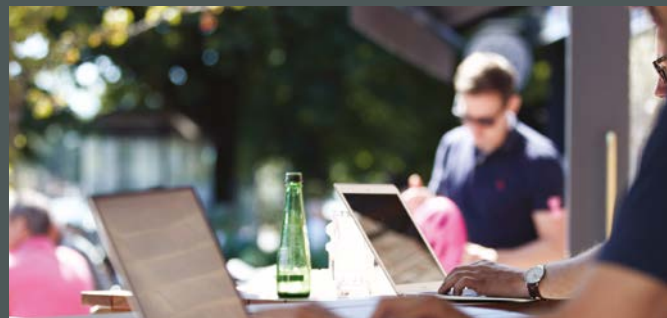
LINK TO KEY RISKS 1A, 1B, 2A, 2D, 2G, 2I, 2J

See pages 40 to 44



LINK TO KPIs 1, 2, 3, 5

See pages 38 and 39



DRIVE AN INNOVATION AGENDA

- To ensure that our brands and formats remain fresh and relevant within their market segments
- To leverage the increasing role technology can play in improving efficiency and guest experience
- To execute a digital strategy to engage with consumers across a variety of platforms
- To facilitate new product and concept development
- To utilise our scale and position to lead on environmental issues which impact our sector, finding innovative solutions to pressing issues

FY 2019 progress

- Expanded our involvement with delivery partners, 273 sites are now live with Deliveroo or JustEat
- Continued to bring guest technology to the customer through order and pay at table
- Successful launch of new concept at The George, Harpenden
- Development of trial of delivery – only brands utilising existing kitchens with additional capacity



FY 2020 priorities

- Consolidate all data onto one platform to facilitate increased use of technology within our business
- Further develop guest loyalty initiatives and extend roll out to more brands
- Further development of our order at table technology and roll out across more brands
- Continue to evolve and develop all of our brands and concepts

Sustainability

- Supporting businesses looking to find sustainable solutions relevant to our industry

LINK TO KEY RISKS 1A, 2B, 2C, 2I, 2J

See pages 40 to 44



LINK TO KPIs 2, 3, 5

See pages 38 and 39



Build a more balanced business

We aim to generate maximum long-term value from our estate by ensuring we have the right brand in the right location. During the year, we completed a total of 247 projects as well as investing in the maintenance and infrastructure of our businesses. We have also successfully focused on reducing the profit drag from the closure and re-opening of our investments.



This means we have kept pace with our aim to invest in each of our sites every six to seven years, ensuring we upgrade and maintain the look and feel in an ever more competitive market. Our returns from our investment in the year have improved, with EBITDA returns^a of 34% on our remodel projects and 21% on our conversion and acquisition projects.

We aim to continuously enhance and develop the environments we create for our guests. Examples of the progress we have made are The George, a new concept, and Browns Edinburgh where a refreshed design format is being trialled. We are delighted with these projects which have received positive guest feedback.

We are also acutely aware of the potential environmental impact of our investment programme and so, during the year, we have begun a programme to refurbish existing kitchen equipment to be used in new projects, with 500 pieces already saved from landfill. We will continue to look for opportunities to improve the sustainability credentials of our estate and investments.

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



Instil a commercial culture

Engaged people, with the right skills and means to both delight guests and deliver profitable growth, have been instrumental in driving the turnaround in our performance in the last two years.



We have continued to equip our managers with the knowledge to grow sales and the tools to deliver efficiencies within the business. These efficiencies include enhanced labour deployment, improved stock control and reduced petty cash spend. Centrally, our teams continue to drive efficiencies from our scale, and have successfully mitigated £6m of inflationary costs across food, drink and logistics in the year.

Central procurement and stock management has allowed us to reduce food waste by 65% through product and pack size review in the period. This year we will also begin to work with FareShare, who will take the surplus food from our supply chain and re-distribute it to charities and community organisations which bring people together through food to encourage social interaction.

Our enhanced labour deployment system, and the team of experts that support it, have delivered further labour efficiencies in the period whilst also optimising the labour deployment in our sites.



Drive an innovation agenda

Delivering our digital strategy is still at the forefront of our focus as we continue to bring technology to the customer experience from single product and process development to our organisation-wide digital strategy. The data produced also enables us to better understand our customers' evolving needs and how we can fulfil them.





Therefore, during the year, we have improved our online booking experience by reducing the number of steps taken to complete a booking resulting in a 25% increase in bookings year on year. We have continued to work with JustEat and Deliveroo, with 273 sites now offering delivery and giving the opportunity for guests to enjoy our brands at home.

We have also utilised technology to facilitate more flexible working for our employees by developing an app which gives oversight of rotas and the opportunity to swap shifts. In addition to previous investments in labour and stock systems, we continue to look at opportunities for technology to support our teams.

In terms of new concept development, during the year we opened The George, a new all-day concept designed to appeal to a range of occasions, which is performing well and receiving positive guest feedback.

- a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.

The Mitchells & Butlers difference

In this section, we outline the distinctive characteristics of Mitchells & Butlers that enable it to create value for its stakeholders – be they financial, structural, cultural or environmental.

FINANCIAL

- Long-term transfer of value to equity as debt is paid down
- Strategy designed to generate sustainable sales and profit growth



STRUCTURAL

- We have a diversified portfolio of leading brands and offers
- We are a predominantly freehold business with well-invested properties
- As one of the leading operators we benefit from economies of scale driven by our central functions
- We understand our guests and have the systems in place to receive and react to their changing needs to evolve our offers



ENVIRONMENTAL

- Our sustainability strategy is designed to create a positive effect on people and communities and to reduce the negative effect of our operations on the environment



CULTURAL

- We have a defined purpose supported by our PRIDE (Passion, Respect, Innovation, Drive, Engagement) values
- Our people strategy encompasses a structured approach to recruitment, retention, development and engagement
- We have a team of dedicated, knowledgeable and capable people who are critical to delivering outstanding experiences to our guests



How we create value

Our business model is driven by our understanding of our guests and our ability over time to evolve our brands and offers to reflect changes in their needs.

Critical to the delivery of our offers is the quality of our people, supply chain, estate and central functions, which provide the infrastructure through which our brands deliver memorable moments to our guests.

Our success in creating these moments consistently and profitably creates long-term value for our stakeholders.

Our experience and ability to interpret guest feedback help us understand what our guests want.



Everything we learn about our guests' requirements is fed back.



Creating memorable moments generates value for stakeholders.



Suppliers
Page 32



Guests
Page 33



Employees
Page 34



2

Understanding what our guests want influences every element of our brands and offers.



3

Everything we do is...

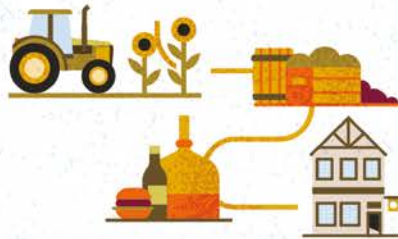
Run by our people...

46,000
employees



Supplied by our supply chain...

380m drinks sold per year
120m main meals sold per year



Realised within our estate...

1,748
pubs, bars and restaurants



Supported and managed by our central functions...

Finance and Technology, Human Resources, Legal and Risk, Marketing, Procurement, and Property



The combination of our brands, people, supply chain, estate and central functions creates memorable moments for our guests.



Local community
Page 35



Environment
Page 36



Investors
Page 37

Suppliers



Our suppliers provide the products which bring our brand visions to life. Customer tastes are continuously evolving and our ability to meet changing preferences at scale sets us apart from our competitors.

We build long-term and collaborative partnerships with our suppliers. By working together, we can develop new and innovative products which help our brands adapt and evolve, building both of our businesses.

We work with suppliers to understand the environmental impact of our supply chain and also prioritise high animal welfare standards.

ISSUES

- Long-term and collaborative relationships
- Products are aligned with consumer needs
- Environmental impact and animal welfare
- Transparent business and payments terms

HOW WE ENGAGE

We aim to develop open and long-term relationships, where shared insight from different perspectives can help both sides to grow and innovate. We work collaboratively with suppliers to secure high quality products which we are proud to serve. By working together we can ensure that products evolve with consumer expectations and are well communicated to our guests.

Our central procurement function and brand teams develop open relationships with suppliers which facilitate ongoing communication. We set high standards of practice as part of our supplier agreements and when necessary use our experience to help smaller suppliers achieve those standards.

We also hold an annual suppliers' conference to communicate our business ambitions and ways of working including our expected Code of Conduct and practices.

FY 2019 HIGHLIGHTS

Tier 2

ACHIEVED TIER 2 BUSINESS BENCHMARK ON FARM ANIMAL WELFARE RATING

WORKED COLLABORATIVELY WITH SUPPLIERS TO DEVELOP PRODUCTS AND OFFERS IN LINE WITH BRANDS' VISIONS

Guests



The satisfaction and enjoyment of our guests is critical to the success of our business. We always aim to exceed guests' expectations and continually evolve our offers with that objective in mind.

Guests trust us to provide a safe environment and we strive to achieve the highest safety and hygiene standards. We focus on ensuring high quality practices across the business.

High quality food and drink, served by an engaged team, in an appealing environment are the key elements to providing our guests with memorable experiences. We continually assess changing guest preferences across these areas to position our brands for success.

ISSUES

- Safe environment
- Clear allergen information
- Ability to have feedback heard and considered
- High quality products and service

HOW WE ENGAGE

Our business is driven by people and as a result we are in the fortunate position to receive 'live' feedback from our customers. Our general managers and team members interact with customers every day and receive valuable feedback on personal experiences.

We also collate feedback through online channels and via our brand surveys which is collated centrally and utilised to provide valuable insight for future brand development.

FY 2019 HIGHLIGHTS

INDUSTRY LEADING SAFETY SCORES

4+

ONLINE REVIEW SCORE OF OVER 4 OUT OF 5 ACROSS THE BUSINESS

3.5%

LIKE-FOR-LIKE SALES UP 3.5%

Employees



Our people are central to our business, bringing to life brand visions through engaging interaction with our guests and preparation of high quality food and drink.

Through our open and inclusive culture, we aim to create an environment which allows our people to develop and thrive. We are proud of the training and development opportunities we offer and strive to provide progression opportunities to all of our people.

The welfare of our employees is of paramount importance to us and we are continually reviewing the support we offer to employees across the business.

ISSUES

- Ensuring employee expectations and needs are met
- Providing development and progression opportunities
- Diversity and inclusion

HOW WE ENGAGE

We have two formal feedback surveys a year providing the opportunity to gain insight into employee satisfaction and to highlight opportunities to improve our offer as an employer.

One to one manager reviews take place twice a year where clear objectives are set and reviewed.

Employee forums are hosted by the Executive team and are open to all employees, giving the opportunity for team members to directly discuss any issues. The Executive team also conduct regional meetings with all General Managers twice a year providing business updates and the opportunity for open discussion.

Dave Coplin, independent Non-Executive Director, is the nominated Board member responsible for representing the employee voice at Board level.

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

The following table sets out our diversity balance between men and women at the end of FY 2019.

	Men	Women
Directors	9	3
Other senior managers	30	13
All employees	21,965	24,121

FY 2019 HIGHLIGHTS

ENGAGEMENT SCORES UP ACROSS ALL COHORTS

81%

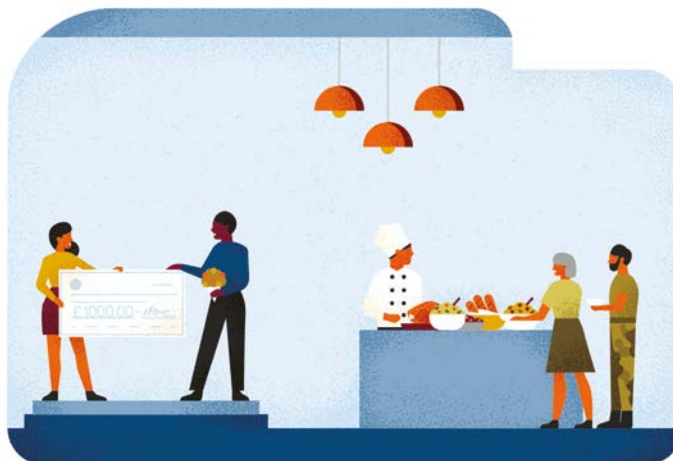
RETAIL STAFF TURNOVER DOWN 3PPTS TO 81%

STRONG INTERNAL DEVELOPMENT

AWARD WINNING APPRENTICE SCHEME

MENTAL HEALTH TRAINING ROLLED OUT TO ALL GENERAL MANAGERS

Local community



We have a long history of providing a central hub to many communities where people have met and socialised for decades. Therefore, we want to help to support the communities we are proud to have been a part of for many years.

Many of our brands are long standing supporters of causes which resonate with the brand and its guests. For example, All Bar One supports Shelter with selected dishes including a donation. Toby Carvery supports Armed Forces and Nicholson's the Royal National Lifeboat Institute.

We are actively looking to enhance the positive impact we can have on local communities, including supporting charities, providing career opportunities, encouraging responsible drinking, and supporting health by reducing the salt and sugar content of our meals.

ISSUES

- Local disruption
- Impact on local economy
- Social mobility
- Charitable partnerships

HOW WE ENGAGE

We have personal interaction with our guests from the local community within our businesses and our general managers have the support to find ways to connect and support their local communities.

Centrally we support charities which are focused on supporting people and communities. Our charitable partners are Mind and Shelter and we are looking at opportunities to enhance the support we offer.

Our Company nutritionist provides expert insight into ways in which we can enhance the nutritional content of our offers, and a working group has established a long-term road map to ambitious goals in this area.

FY 2019 HIGHLIGHTS

Free

TOBY CARVERY ANNUALLY SUPPORTS ARMED FORCES DAY GIVING A FREE MEAL TO MILITARY PERSONNEL

£173m

TAX PAID £173M
(not including tax collected, e.g. VAT)

20%

ACHIEVED SUGAR REDUCTION PLEDGE TO REDUCE SUGAR BY 20% BY 2020

No.3

HARVESTER AWARDED NO.3 IN OUT TO LUNCH RANKINGS BY THE SOIL ASSOCIATION

Environment



The natural environment provides the business with the resources it needs to operate. We take our responsibility to protect that environment seriously and have, therefore, set new and stretching targets to reduce the negative impact of our business.

We have aligned our objectives with the UN Sustainable Development Goals in order to focus our efforts on the global priorities.

The food industry has an important part to play in climate change, as food supply chains are a significant factor in rising greenhouse gas emissions and in the reduction of biodiversity, and food waste is one of the largest contributors to greenhouse gas emissions globally.

ISSUES

- Preventing damaging levels of global warming
- Protecting biodiversity
- Reducing the use of scarce resources

HOW WE ENGAGE

We aim to make sustainable and responsible operation part of the way we do business in the future. We are prioritising the areas where we can have the biggest impact first and have ambitions across a number of areas which we will pursue in the most effective way possible over the coming years.

We are actively collaborating with organisations such as The Sustainable Restaurant Association and UK Hospitality to support industry wide changes, including policy setting, to reduce the negative impact our market has on the environment.

FY 2019 HIGHLIGHTS

274m³

**KITCHEN EQUIPMENT REFURBISHMENT
SAVING 274m³ OF LANDFILL SPACE**

**ALL FOOD WASTE SENT TO ANAEROBIC
DIGESTION**

**PARTNERSHIP ESTABLISHED WITH
FARESHARE TO REDISTRIBUTE
UNAVOIDABLE WASTE FOOD IN
SUPPLY CHAIN**

**RECYCLED WASTE IS PROCESSED IN UK
AND NORTHERN EUROPE ONLY**

**ESTABLISHED STRETCHING TARGETS
FOR THE COMING YEARS TO REDUCE
OUR IMPACT (SEE PAGES 18 AND 19)**

**BOARD COMMITTEE AND HEAD OF
SUSTAINABILITY ROLE CREATED**

Investors



Our investors are made up of our shareholders and bondholders who play an important role in monitoring and safeguarding the governance of our Group.

We aim to demonstrate the responsible stewardship of the Company from a financial, strategic, governance, environmental and ethical perspective. It is important that our investors have transparency over the operation of our business.

ISSUES

- Environmental, social and governance matters
- Financial performance
- Capital allocation
- Strategy and business model

HOW WE ENGAGE

We maintain an open dialogue through our investor relations programme. We update investors on financial and strategic performance through regular performance updates and facilitate discussion through meetings, roadshows and our Annual General Meeting.

We ensure that investor views are brought to the Boardroom and are considered in decision making.

FY 2019 HIGHLIGHTS

REPORTING ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES ENHANCED

BREADTH OF EXPERIENCE ON BOARD ENHANCED WITH NEW MEMBERS

STRONG FINANCIAL PERFORMANCE

OPEN COMMUNICATION WITH INVESTORS

NEW SUSTAINABILITY STRATEGY IN PLACE

- a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.

Measuring performance

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

We have introduced two new indicators in the year in relation to greenhouse gas emissions and food waste and we will report our progress against these in FY 2020. These measures demonstrate our sustainability ambitions; for further details please see pages 18 and 19.



STAFF TURNOVER

Definition

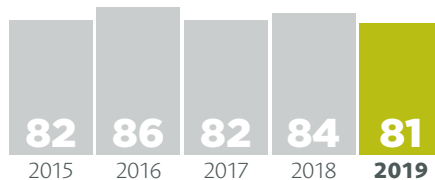
The number of leavers in our retail businesses, expressed as a percentage of average retail employees. This like-for-like measure excludes site management.

FY 2019 performance

Retail staff turnover decreased by 3ppts to 81% which represents a significant improvement on the prior year.

We operate in a highly competitive labour market and therefore have focused on continuing to deliver and enhance our people promise in order to meet the needs of our employees.

81%

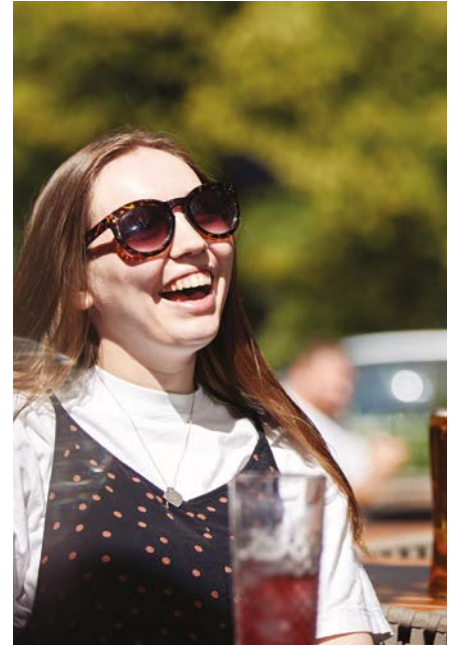


Link to strategic priority:

2

OUR STRATEGIC PRIORITIES

See pages 20 and 21



NET PROMOTER SCORE

Definition

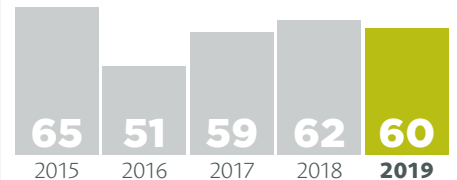
The net promoter score for a site is defined as the percentage of responses where we score 9 or 10 out of 10, less the percentage of responses where we score 0 to 6 out of 10 based on the question "how likely are you to recommend this site to a friend and/or relative?"

FY 2019 performance

Net promoter score for FY 2019 was 60 which has decreased from a score of 62 in FY 2018.

Despite the decrease in this score, which is the outcome of individual site surveys, our online review scores have increased to over 4 out of 5 across the business and the number of complaints was reduced.

60



Link to strategic priority:

1, 2 & 3

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.





YEAR-ON-YEAR SAME OUTLET LIKE-FOR-LIKE SALES^a

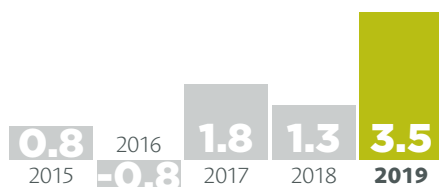
Definition

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

FY 2019 performance

Like-for-like sales rose by 3.5% in FY 2019. This strong sales performance was driven by growth across all of our brands and supported by uninvested sales growth. Growth remained consistently ahead of the market as measured against the Coffey Peach Tracker.

3.5%



Link to strategic priority:

1, 2 & 3

OUR STRATEGIC PRIORITIES

See pages 20 and 21



INCREMENTAL RETURN ON EXPANSIONARY CAPITAL^a

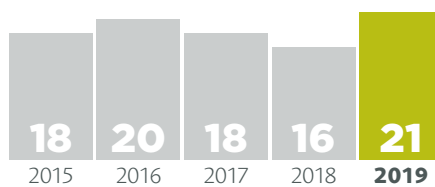
Definition

Expansionary capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital.

FY 2019 performance

The EBITDA return on all conversion and acquisition capital invested in FY 2019 was 21%, up from 16% in FY 2018. The improvement in return is due to reduced closure times, efficient use of resources and a focus on setting the business up for success immediately after opening.

21%



Link to strategic priority:

1



ADJUSTED OPERATING PROFIT^a

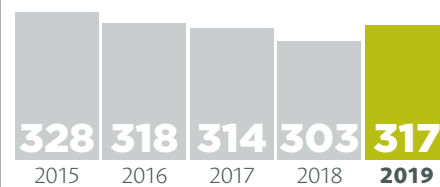
Definition

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

FY 2019 performance

Adjusted operating profit for the year of £317m was 4.6% higher than the prior year. This successful performance was delivered through strong trading and the delivery of cost efficiencies as part of the Ignite programme of work. Operating margin grew by 0.1 ppts despite the ongoing inflationary cost pressure impacting our industry.

£317m



Link to strategic priority:

1, 2 & 3



Keeping risk under control

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

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

OVERVIEW

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

There is a formally established Risk Committee in place which continues to meet on a quarterly basis to review the key risks facing the business. Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact and recorded on the Group's 'Key Risk Heat Map', in conjunction with associated agreed risk mitigation plans. The processes that are used to identify and manage risks are described in the Internal Control and Risk Management statement on page 70.

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

In discharging its role of reviewing the risks to which the Company is exposed, during 2019 the Risk Committee considered very carefully the potential risks which might arise from the UK's departure from the European Union, which had several dates and configurations during the year. Those potential considerations were reviewed as part of every identified risk area as opposed to being considered as a separate, stand-alone risk due to the possibility for such potential risks to have an impact across various risk areas. Since, at the time of publication of this Annual Report, this issue has not been finally resolved, the same approach is continuing in FY 2020.

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

OUR THREE LINES OF DEFENCE

1

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

2

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

3

- Group Assurance
- Operational Practices Team

1. MARKET RISKS

Risk category

A. DECLINING SALES PERFORMANCE Sales

There is a risk that declining sales, concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combination, may adversely affect our market share and profitability, reducing headroom against securitisation tests.

Consumer and market insight

If Mitchells & Butlers fails to manage and develop its existing (and new) brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in revenues and profits.

Pricing and market changes

If price changes are not intelligently applied due to a lack of appreciation of market sensitivities and elasticities, this may result in decreased revenue and profit.

B. COST OF GOODS – PRICE INCREASES Food

The cost of goods increases due to changes in demand, food legislation, exchange rates and/or production costs and uncertainty of supply, leading to decreased profits.

Drinks

The cost of drinks goods increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits.

Goods not for resale

Increases in the cost of goods not for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting margins.

Brexit

Given that circa 30% of food spend is sourced from EU countries, the overall risk and impact of additional costs is higher. In addition, there is an increasing risk of sourcing certain products given the expected delays at ports following the exit by the UK from the EU. On exit by the UK from the EU, the cost of goods may be impacted by changes in terms of trade and therefore tariffs, additional border controls and fluctuations in the value of sterling.

Controls/mitigating activities

- Right operational and commercial team and structure in place. Brand alignment ensures the right research is done and is acted on.
- Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place.
- Our Eat Drink Share panel provides robust, quick and cost-effective research. This is our own panel of 27,000 Mitchells & Butlers guests whom we can use for research purposes for quick and cost-effective insights.
- Primary research in partnership with brand/category teams.
- Working with suppliers to tap into their research.
- Each brand has its own pricing strategy.
- Price promotions are in line with the agreed strategy.
- Sales training for Management.
- Consumer/insight-led innovation process and development for new brands.
- Reduce guest complaints by improving the local management of social media responses (e.g. TripAdvisor responses).
- Increased digital marketing activity including new loyalty apps.
- Increased activity from takeaway and delivery offerings.
- Online guest satisfaction survey to collect guest feedback. This feedback, together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to guests of the Company's brands is maintained.

Overall, cost increases are mitigated as Mitchells & Butlers leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry in the world commodity markets gives the Company the opportunity to source products from a number of alternative suppliers in order to drive down cost. Consideration has been given to potential areas such as supply chain risk (e.g. customs controls on imports), labour risk and economic disruption. Key mitigating activities for food and drink are detailed below:

Food:

- A Food Procurement Strategy is in place.
- Full reviews are carried out on key categories to ensure optimum value is achieved in each category.
- A full range review was completed in FY 2019 ensuring the correct number of products/suppliers. This is regularly reviewed.
- Regular reporting of current and projected inflation.
- Good relationships with key suppliers.

Drinks:

- Each drinks category has a clearly defined strategic sourcing plan to ensure Company scale is leveraged, the supply base is rationalised and consumer needs are met.
- Good relationships with key suppliers.
- Supplier collaboration programmes are in place.
- Plans in place to mitigate Sugar Tax.

Risk is increasing mainly due to the devaluation of the pound following the EU referendum, changes in Government policy (raising the risk of punitive duty changes) and the introduction of the Sugar Tax in 2018. Brexit risks have been considered in detail during FY 2019 and mitigating plans continue to be reviewed and developed.

Buying ahead to mitigate the increasing risk of a lack of availability of products upon the exit by the UK from the EU.

Movement

RISK DECREASING



RISK INCREASING



2. OPERATIONAL RISKS

Risk category

A. PEOPLE PLANNING AND DEVELOPMENT

Mitchells & Butlers has a strong guest focus and so it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. There is a risk that, without the right people, our customer service levels would be affected.

There are a large number of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk is increasing as the UK approaches its possible exit from the EU. Any restriction on the free movement of labour would have a material impact on both the cost of labour and access to talent.

B. BUSINESS CONTINUITY AND CRISIS MANAGEMENT

Mitchells & Butlers relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises such as terrorist activity or the threat of disease pandemic might restrict sales or reduce operational effectiveness.

C. INFORMATION SECURITY AND DISASTER RECOVERY

There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data.

Increasing risk of cyber-attacks.

Risk of non-compliance with GDPR.

Controls/mitigating activities

- The Company makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully.
- Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.
- Remuneration packages are benchmarked to ensure that they remain competitive and a talent review process is used to provide structured succession planning.
- The apprenticeship programme will also assist in mitigating against the increasing risk in relation to EU workers.
- A new talent management system has been sourced.

- The Company has in place crisis and continuity plans that are tested and refreshed regularly. The Company's third-party back-up facility, for Retail Support Centre employees, has been successfully tested to ensure critical business systems are able to function in the event of a disaster.
- In addition, during FY 2019, departmental Business Continuity Plans have been updated.
- During FY 2018, two key departments took part in a test of our third-party off-site back-up facility. This test was a success and identified some key learnings to improve the overall service, all of which were implemented. Further testing is planned for FY 2020.

- In FY 2019 a further review of cyber security was performed in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made to address audit actions.
- In addition, controls include:
 - The work carried out by the Group's cross-functional Information Security Steering Group.
 - Group Assurance IT controls reviews.
 - Implementation and revision of appropriate cyber security governance policies and procedures.
 - Ongoing security awareness initiatives continue to be undertaken.
 - A regular cycle of penetration testing.
 - An effective implementation of a business-wide Global Data Protection Regulation compliance programme, including training of all relevant employees and contractors.
 - Increased focus on protecting the business against potential cyber-attacks has resulted in the implementation of additional controls to mitigate against such risks.
 - Systems, processes and controls have been reviewed and updated to ensure GDPR compliance.

Movement

RISK INCREASING



(Specifically in London/ South East)

NO RISK MOVEMENT



RISK INCREASING



Risk category**D. WAGE COST INFLATION**

There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs.

E. BORROWING COVENANTS

There are risks that borrowing covenants are breached because of circumstances such as:

- i. A change in the economic climate leading to reduced net cash inflows; or
- ii. A material change in the valuation of the property portfolio.

F. PENSION FUND DEFICIT

The material value of the pension fund deficit remains a risk.

G. FAILURE TO OPERATE SAFELY AND LEGALLY

A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation.

Controls/mitigating activities

- A detailed review of the risks associated with the National Living Wage has been completed. This review has been undertaken at a strategic level and seeks to ensure that appropriate mitigating actions are in place, some of which are in relation to how the Group carefully manages productivity and efficiency across the estate.
- We have successfully implemented a new Time and Attendance system to improve the management controls and reporting of staff hours.

- The Company maintains headroom against these risks. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee, the role of which includes ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board.
- In addition, regular forecasting and testing of covenant compliance is performed and frequent communication is maintained with the Securitisation Trustee.
- Annual property valuation.
- Detailed assessment of this is included in the long-term viability statement.

- The Company has made significant additional contributions to reduce the funding deficit. In September 2019, the Company reached agreement on the triennial valuation of the Group pension schemes as at 31 March 2019, with a funding shortfall of £293m (March 2016 valuation £451m shortfall).
- The Company will continue to pay cash contributions (of £45m p.a. RPI indexed from 1 April 2016) to 2023, with an additional payment of £13m into escrow in 2024 should such further funding be required at that time. This schedule of contributions is unchanged from that agreed in relation to the 2016 valuations.

- Mitchells & Butlers maintains a robust programme of health and safety checks both within its restaurants, pubs and bars and throughout the supply chain.
- The dedicated Safety Assurance team uses a number of technical partners including food technologists, microbiologists and allergen specialists to ensure that our food procedures are safe.
- Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained.
- If a business is identified as underperforming in terms of health and safety standards, it is immediately targeted for improvement.
- The Company has Primary Authority Partnerships with Westminster City Council, St Albans City Council and Shared Regulatory Services in Wales, for the provision of assured advice on, amongst other things, safety issues and with Hampshire Fire Service for the provision of support and guidance on fire safety risks.
- Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits.
- Comprehensive health and safety training programmes are in place.

Movement**RISK INCREASING****NO RISK MOVEMENT****RISK DECREASING****RISK INCREASING**

2. OPERATIONAL RISKS CONTINUED

Risk category

H. FOOD SUPPLY CHAIN SAFETY

Malicious or accidental contamination in the supply chain could lead to food goods for resale being unfit for human consumption or being dangerous to consume. This could lead to restrictions in supply which in turn causes an increase in cost of goods and reduced sales due to consumer fears and physical harm to customers/employees.

Allergens are becoming an increased risk within the industry, however, this is a well managed risk within the Group.

I. HEALTH AND LIFESTYLE CONCERNS

Failure to respond to changing consumer expectations in relation to health and lifestyle choices and our responsibility to facilitate those.

There is an increasing level of focus from media and Government on health and obesity issues, predominantly impacting the UK. This heightened consumer awareness has increased consumer awareness of the health implications of their eating and drinking choices and it is important that we evolve our offers to facilitate consumers to make informed decisions. Failure to meet these expectations could have both a financial and reputational impact on the business.

J. ENVIRONMENT AND SUSTAINABILITY

Climate change, biodiversity depletion and environmental pollution present a risk to our ability to source products, with food being particularly at risk.

The impact of extreme and longer-term shifts in weather patterns, natural resource depletion and other effects of climate change could impact the business both financially and reputationally. It could disrupt our supply chain and the ability to source products due to reduced availability. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed. The business also has a responsibility to continually aim to reduce its usage of natural resources and its negative impact on the climate.

Controls/mitigating activities

- Mitchells & Butlers has a Safety Assurance team and uses a number of technical partners including food technologists, food safety experts, microbiologists, allergy consultants, trading standards specialists and nutritionists.
- Mitchells & Butlers uses a robust system of detailed product specifications.
- All food products are risk rated using standard industry definitions and assessment of the way the products are used in Mitchells & Butlers' kitchens. Suppliers are then risk rated according to their products.
- Each food supplier is audited at least once per annum in respect of safety and additionally in response to any serious food safety complaint or incident.
- A robust response has been taken to manage allergens and the associated data within the menu cycle coupled with a continuous review in place to ensure controls remain appropriate.

- We monitor changing behaviour in relation to health and lifestyle issues and adapt our brands to appeal to changing needs ensuring that the brands remain relevant and competitive.
- We have set targets for ongoing sugar and salt reduction.
- A plan is in place to provide nutritional information for all brands to allow customers to make informed decisions.

- We are completing a greenhouse gas foot printing exercise to understand the current impact of the business and to provide a baseline for future reduction.
- We are working with suppliers to understand the impact of our supply chain with a view to reducing the negative impact on the environment.
- Participation in industry collaboration to find solutions to environmental issues, ensuring that the areas where the most material benefit can be gained, are being addressed.

Movement

NO RISK MOVEMENT

RISK INCREASING



RISK INCREASING



LONG-TERM VIABILITY STATEMENT Assessment of prospects

The Group's strategy provides long-term direction and considers the viability of the business model given prevailing market and economic conditions. The Directors' subsequent assessment of longer-term prospects has been made taking account of the current financial position, compliance with covenants, strategy, the budget planning process and the key risks and uncertainties, as detailed within the Annual Report. Key factors considered in the assessment of the Group's prospects are the strong market position of the Group with a broad range of brands and offers, supported by capital investment focused on premiumisation of offers and reductions in the remodel cycle, contributing to outperformance against the wider market. Balanced against this is the assessment of risks including the current economic background, political uncertainty and prevailing cost headwinds.

Assessment period

Three years is deemed an appropriate period of assessment as it aligns with the Group's planning horizon in a fast-moving market subject to economic and political uncertainties and is supported by three year forecasts as approved by the Board in September 2019. This period also aligns with the triennial process of pensions valuations, a key consideration in respect of future cash flows.

Assessment of viability

In accordance with Provision C2.2 of the 2016 UK Corporate Governance Code, the Directors have undertaken an assessment, including sensitivity analyses, of the prospects of the Group for a period of three years to September 2022.

The current funding arrangements of the Group consist of £1.7bn of long-term securitised debt and £150m of unsecured committed bank facilities. The securitised debt amortises on a scheduled profile over the next 17 years and, whilst the unsecured facilities expire in December 2020, refinancing is believed to remain within the debt capacity of the business. Secured debt covenants are tested quarterly both on an annual and a half year basis. Unsecured facility covenants are tested twice yearly on an annual basis. No significant changes to the capital structure are assumed.

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

Viability statement

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

NON-FINANCIAL INFORMATION STATEMENT

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

- Business model on pages 30 and 31
- Information regarding the following matters can be found on the following pages:
 - Environmental matters on page 36
 - Employees on page 34
 - Social matters on pages 32 to 37
 - Respect for human rights on pages 69 and 70
 - Anti-corruption and anti-bribery matters on pages 69 and 70.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 40 to 44 including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on pages 38 to 39.
- The Financial review section on pages 46 to 49 includes, where appropriate, references to, and additional explanations of, amounts included in the accounts.

Our financial and operating performance



On a statutory basis, profit before tax for the year was £177m (FY 2018 £130m) on sales of £2,237m (FY 2018 £2,152m).



TIM JONES
Chief Financial Officer
Mitchells & Butlers plc



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

	Statutory		Adjusted ^a	
	FY 2019 £m	FY 2018 £m	FY 2019 £m	FY 2018 £m
Revenue	2,237	2,152	2,237	2,152
Operating profit	297	255	317	303
Profit before tax	177	130	197	178
Earnings per share	33.5p	24.5p	37.2p	34.1p
Operating profit margin	13.3%	11.8%	14.2%	14.1%

At the end of the period, the total estate comprised 1,748 sites in the UK and Germany of which 1,671 are directly managed.

CHANGES IN ACCOUNTING POLICIES

During the period the Group has adopted IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments). In the forthcoming year, FY 2020, we shall adopt IFRS 16 (Leases), the anticipated impact of which is dealt with later in this review.

REVENUE

Total revenue of £2,237m was 3.9% higher than last year, with growth in like-for-like sales^a and the benefit of conversions and new site openings.

Like-for-like sales^a grew by 3.5% with food sales^a up by 3.4% and drink sales^a up by 3.2%. Average spend per item on food was up 3.4%, and average drink item spend up 4.5%, following strengthening of prices and increasing premiumisation across the estate. Other sales, including accommodation and machine sales, grew at a higher rate impacting total like-for-like sales^a growth.

Like-for-like sales ^a growth:	Weeks 1–33 FY 2019	Weeks 34–52 FY 2019	Weeks 1–52 FY 2019
Food	3.6%	3.1%	3.4%
Drink	3.9%	2.1%	3.2%
Total	3.8%	2.9%	3.5%

SEPARATELY DISCLOSED ITEMS

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

A £19m past service cost is recognised in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions equalisations.

A £9m charge is recognised relating to valuation and impairment of properties, comprising a £4m (FY 2018 £28m) charge relating to downward valuation movements on selected sites, and a £5m (FY 2018 £15m) impairment charge on short leasehold and unlicensed properties.

Disposal of assets generated a £1m profit in the year (FY 2018 nil), in addition to a £7m (FY 2018 nil) reversal of past impairment on disposed assets when reclassified to assets held for sale at the interim date.

OPERATING MARGINS AND PROFIT^a

Despite ongoing inflationary cost pressures, growth in adjusted operating margin^a was achieved through like-for-like sales^a growth and enhanced efficiencies. Inflationary cost pressures which totalled £64m were in line with expectations, particularly impacting labour, energy, property and food and drink. Adjusted operating margin^a for the full year was 0.1ppts higher than last year at 14.2%.

Adjusted operating profit^a of £317m was 4.6% higher than last year, as a result of mitigating cost reductions and like-for-like sales^a growth.

INTEREST

Net finance costs of £113m for the full year were £5m lower than last year reflecting the reduction in Group securitised borrowings.

The net pensions finance charge for the year was £7m (FY 2018 £7m). The charge for next year is expected to be £3m.

EARNINGS PER SHARE

Basic earnings per share, after the separately disclosed items described above, were 33.5p (FY 2018 24.5p). The increase over last year reflects an increase in profit before adjusted items and reduced separately disclosed items. Adjusted earnings per share^a were 37.2p, 9.1% higher than last year. The weighted average number of shares in the period was 427m and the total number of shares issued at the balance sheet date was 429m.

CASH FLOW AND NET DEBT

The cash flow statement below excludes the net movement on unsecured revolving facilities of nil (FY 2018 (£6m)), which were undrawn at the year-end (FY 2018 undrawn).

	FY 2019 £m	FY 2018 £m
EBITDA before separately disclosed items ^a	436	422
Non-cash share-based payment and pension costs	6	5
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	442	427
Working capital movement	9	2
Pension deficit contributions	(49)	(48)
Cash flow from operations before adjusted items	402	381
Cash flow from adjusted items	–	(2)
Capital expenditure	(152)	(171)
Interest	(111)	(119)
Tax	(25)	(20)
Disposal proceeds	14	6
Investment in associates and other	(3)	(5)
Repayment of liquidity facility	(147)	–
Transfers from cash deposits	120	–
Net cash flow before bond amortisation	98	70
Mandatory bond amortisation	(87)	(82)
Net cash flow before dividends	11	(12)
Dividend	–	(7)
Net free cash flow^a	11	(19)

The business generated £436m of EBITDA before separately disclosed items^a.

Capital expenditure of £152m was lower than the prior year due to lower central and maintenance investment and to lower capital cost per project, driven by a decreased proportion of conversion projects. Disposal income of £14m related to the sale of five sites in the year.

During the year the securitisation liquidity facility of £147m, originally drawn in 2014, was repaid. £120m of the repayment was made using other cash deposits, with the balance of £27m from cash and cash equivalents.

After all outgoings other than mandatory bond amortisation cash flow generated was £98m.

There was no dividend paid in the year.

Net debt reduced to £1,564m at the year-end (FY 2018 £1,688m), representing 3.6 times adjusted EBITDA^a (FY 2018 4.0 times).

All debt at the year-end was within the group securitisation arrangements and is subject to quarterly testing on both a rolling half and full year basis. Full year headroom against the restricted payment test and covenants is set out below:

Securitisation restricted payment tests:

	Test	Actual	Headroom
Free cash flow to debt service	1.3x	1.5x	£37m
EBITDA to debt service	1.7x	1.9x	£32m

Securitisation covenants:

	Covenant	Actual	Headroom
Free cash flow to debt service	1.1x	1.5x	£76m
Net worth	£500m	£2,322m	£1,822m

Further details can be found at <https://www.mbplc.com/infocentre/debtinformation>

CAPITAL EXPENDITURE

Capital expenditure of £152m comprises £147m from purchase of property, plant and equipment and £5m in relation to purchase of intangible assets.

Maintenance and infrastructure capex of £60m was £10m lower than the prior year due primarily to reduced maintenance requirements as the proportion of the estate recently invested grows, and reduced IT investment as significant projects took place in the prior year.

During the year we completed a greater number of investment projects, 247 in total (FY 2018 239). This was achieved at a lower level of return generating capital, £92m, due to the reduced proportion of conversion projects and increased number of remodels which require lower spend per project. Acquisitions were focused on premiumisation and expansion with the opening of three new Miller & Carter sites (one in Germany), three new Alex sites and a purpose-built lodge in Edinburgh.

Our return on expansionary capital^a across all conversion and acquisition projects over the past four years has increased markedly to 21% (FY 2018 16%), with increasing returns particularly coming through from more recent projects. Recent remodel performance, for projects completed in FY 2019, has also been especially encouraging, delivering returns^a of 34%^a and sales uplifts in excess of 10%.

	FY 2019		FY 2018	
	£m	#	£m	#
Maintenance and infrastructure	60		70	
Remodels – refurbishment	65	212	63	188
Remodels – expansionary	5	11	7	13
Conversions	11	17	21	31
Acquisitions – freehold	4	5	7	2
Acquisitions – leasehold	7	2	3	5
Total return generating capital expenditure	92	247	101	239
Total capital expenditure	152		171	

The Group capital expenditure next year is expected to increase to a similar level to that of FY 2018, in the range of £170m to £180m.

PROPERTY

In line with our property valuation policy, a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall property portfolio valuation has increased by £82m (FY 2018 decrease of £48m) reflecting a £2m separately disclosed net impairment charge in the income statement and a £84m increase in the revaluation reserve.

PENSIONS

The net pensions liability, including minimum funding, is £215m (FY 2018 £249m).

The results of the 2019 triennial valuation show an actuarial deficit of £293m and in September we reached agreement with the Trustee for an unchanged schedule of future contributions. The deficit will continue to be funded by cash contributions of £45m per annum indexed from 1 April 2016 to 2023. In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

The hearing in relation to the rate of inflation to be applied to pensions increases for certain sections of the membership in excess of the guaranteed minimum pensions is expected to be heard in mid 2020.

CAPITAL ALLOCATION POLICY AND DIVIDENDS

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

Given this capital allocation framework combined in particular with the uncertain political and economic outlook, the Board does not propose a final dividend for the year

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

IFRS 16 (LEASES)

The Group will adopt IFRS 16 for the first time in FY 2020 using the modified retrospective (asset equals liability) method, without restatement of prior year comparatives. Any opening balance sheet adjustments are recorded directly into equity.

Adoption will mean that the majority of leases will be recognised on balance sheet through creation of a right of use asset and related lease liability. In the income statement operating rental costs will largely be replaced by depreciation of the asset and interest on the liability. There is no cash impact.

The impact on transition of adoption on the income statement is expected to be an uplift in EBITDA of circa £50m (through lower rental costs) and a reduction in pre-tax profits (after increased depreciation and interest charges) of circa £11m, reducing basic earnings per share by 2.1p. On the opening FY 2020 balance sheet we expect to recognise a right of use asset of £500m and a lease liability of £546m. These changes should lead to an increase of 70bps in the book net debt: EBITDA multiple. Further details of the new policy and expected impact are included in section 1 of the notes to the consolidated financial statements.

TIM JONES

Chief Financial Officer

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.



£197m

Adjusted profit before tax^a of £197m, up £19m.

37.2p

Adjusted earnings per share^a of 37.2p, up 9.1%.

Governance



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Dear fellow shareholder

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

At the 2019 year end, the Company had more than 46,000 employees and one of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for them and maintain the highest possible standards of corporate governance.

One of the key changes from last year's report has been the detailed consideration of the 2018 UK Corporate Governance Code (the '2018 Code'), published in July 2018. This applies to accounting periods beginning on or after 1 January 2019 and so the Company is not required to report under it until FY 2020. Nevertheless, in the interests of good governance, the Board has decided that it will report under the 2016 UK Corporate Governance Code (the '2016 Code') and, to the extent to which it is already able, it will also report under the 2018 Code for FY 2019, which is earlier than required, which has the advantage of highlighting any areas requiring attention before compliance becomes mandatory.

The 2018 Code places greater emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the Company purpose and business strategy, promotes integrity and values diversity. This has had a significant effect on the structure of both the Strategic report on pages 10 to 49, which includes the Group's strategy, progress and performance for the year, and on the corporate governance statement on pages 63 to 71, which sets out the Company's compliance against published governance requirements.

During the year the Board as a whole has continued to work together to implement the Company's strategy in a cohesive way. Our broad range of Board talent covers a variety of professional skills and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. On 31 December 2018, our former Senior Independent Director, Stewart Gilliland, stepped down from the Board in order to concentrate on

his other roles. A process of identification and recruitment took place, with the result that we were delighted to announce the appointment of Jane Moriarty and Susan Murray to the Board, on 27 February 2019 and 8 March 2019 respectively, with Susan taking on the role of Senior Independent Director on appointment. The two new appointees between them bring a wealth of experience to the Board in the finance and marketing sectors, and significantly increase the Board's diversity. My focus will continue to be on maintaining a strong team, with a broad range of professional backgrounds, experience from both within our sector and in other industries and business and communication skills to drive further improvements where possible.

Both the 2016 Code and the 2018 Code state that there should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors and that the chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. An externally facilitated review of the Board's effectiveness took place in 2018 and the results were published in the 2018 Annual Report, with the next externally facilitated review being due for reporting in the 2021 Annual Report. For the 2019 Annual Report, the evaluation of the Chairman's performance was undertaken by the Senior Independent Director in dialogue with the whole Board (other than the Chairman). Also, in FY 2019, the Company undertook an internal Board effectiveness review which was led by the Chairman, with support from the Company Secretary and General Counsel, and the results of this are given on page 71 of this report.

The remainder of this report contains the narrative reporting required by the 2016 Code, the 2018 Code, the Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you find this report to be informative and helpful in relation to this important topic.

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team via our Investor Roadshow programme. I would like to encourage shareholders to attend our Annual General Meeting, details of which are set out in the separate Notice of AGM sent out with this Annual Report.

We have been pleased with the success of our Retail Support Centre in Birmingham as an AGM venue, in terms of its suitability, accessibility to shareholders from all parts of the country and also the cost saving, and we therefore intend to continue to use it for this meeting. I look forward to welcoming you there at our 2020 AGM, where I hope you will take the opportunity of meeting all our Board Directors, but in particular our newly appointed Directors, who will be meeting you for the first time.

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

BOB IVELL

Chairman
Mitchells & Butlers plc

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BOB IVELL
NON-EXECUTIVE CHAIRMAN **R,N,M,C**

Appointed to the Board in May 2011, Bob has over 40 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently Non-Executive Chairman of Carpetright plc, a Non-Executive Director of Charles Wells Limited and a UK Board member of UK Hospitality. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic plc, and a main Board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Park Resorts and David Lloyd Leisure Limited, and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee, the Pensions Committee, the Market Disclosure Committee and the Corporate Responsibility Committee.



PHIL URBAN
CHIEF EXECUTIVE **M,E**

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



TIM JONES
CHIEF FINANCIAL OFFICER **M,E**

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

KEY TO COMMITTEE MEMBERSHIP

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



DAVE COPLIN
INDEPENDENT NON-EXECUTIVE DIRECTOR
A,R,N,C

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



KEITH BROWNE
NON-EXECUTIVE DIRECTOR

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



EDDIE IRWIN
NON-EXECUTIVE DIRECTOR **A,R,N,C**

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



JOSH LEVY
NON-EXECUTIVE DIRECTOR **R**

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



SUSAN MURRAY
SENIOR INDEPENDENT DIRECTOR **A,R,N,C**

Appointed as Senior Independent Director in March 2019, Susan has served on the boards of Compass Group PLC, Pernod Ricard SA, Imperial Brands PLC and EI Group plc and is a former Council Member of the Advertising Standards Authority. She is currently a non-executive director of Hays Plc and Grafton Group PLC and a member of the supervisory board of William Grant & Sons Holdings Limited. In her executive career, amongst other roles, Susan was Director of International Marketing of Grand Metropolitan's IDV business, Worldwide President and Chief Executive of Smirnoff's vodka business and subsequently Chief Executive of Littlewoods.



RON ROBSON
DEPUTY CHAIRMAN **A,N,C**

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



JANE MORIARTY
INDEPENDENT NON-EXECUTIVE DIRECTOR
A,R,N,C

Appointed as an independent Non-Executive Director in February 2019, Jane is a Fellow of the Institute of Chartered Accountants in Ireland, and currently a director of NG Bailey Group Limited, Quarto Group Inc., Martin's Investments Limited and Nyrstar NV. She was previously a senior advisory partner with KPMG LLP.



COLIN RUTHERFORD
INDEPENDENT NON-EXECUTIVE DIRECTOR
A,R,N,M,C

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



IMELDA WALSH
INDEPENDENT NON-EXECUTIVE DIRECTOR
A,R,N,C

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

THE BOARD'S RESPONSIBILITIES IN RESPECT OF THE COMPANY INCLUDE:

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

The Board has decided, to the extent to which it is already able, to adopt the provisions of the 2018 UK Corporate Governance Code (the '2018 Code') earlier than is required. Further information is set out in the Strategic Report which examines the 'purpose' aspect of the new requirements, and in the Corporate Governance Report which describes the changes in the reporting of the Company's approach to culture and practices undertaken during FY 2019, in readiness for when full compliance is required in FY 2020.

FOR THE COMPANY'S LATEST FINANCIAL INFORMATION

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The Directors present their report on the affairs of the Group and the audited financial statements for the 52 weeks ended 28 September 2019. The Business review of the Company and its subsidiaries is given on pages 12 to 15 which, together with the corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 40 to 44 and 70, and details about financial instruments are shown in note 4.4 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on pages 38 and 39.

The Company's Directors pay due regard to the need to foster the Company's business relationships with suppliers, customers and others. Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of that regard on the principal decisions taken by the Company during the financial year, is set out in the section discussing the Company's business model on pages 30 and 31.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 10 to 49 reflects the Directors' understanding of the requirement to provide a Strategic report.

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

AREAS OF OPERATION

Throughout FY 2019 the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany. A full list of the Company's subsidiaries and their country of operation is given on page 149 of the Annual Report.

SHARE CAPITAL AND VOTING RIGHTS

The Company's issued ordinary share capital as at 28 September 2019 comprised a single class of ordinary shares of which 428,577,760 shares were in issue and listed on the London Stock Exchange (29 September 2018 428,310,823 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association.

Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 2,815,781 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 146.

Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting specifies deadlines for exercising voting rights in relation to the resolutions to be put to the Annual General Meeting.

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

Table 1: Interests in voting rights

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	116,234,517	27.12	Direct holding
Elpida Group Limited	100,840,659	23.53	Direct holding
Standard Life Aberdeen plc	26,178,807	6.11	Indirect holding
Smoothfield Holding Limited	19,021,589	4.44	Direct holding

* Based on the total voting rights figure as at 28 September 2019 of 428,577,760 shares.

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

During the year, shares with a nominal value of £22,801 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006. No securities were issued in connection with a rights issue during the year.

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

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 92 in the Report on Directors' remuneration.

DIVIDENDS

No Final Dividend will be paid in respect of the year ended 28 September 2019 (2018 nil). No Interim Dividend was paid during the year (2018 nil).

INTERESTS IN VOTING RIGHTS

As at 28 September 2019, the Company was aware of the significant holdings of voting rights (3% or more) in its shares shown in Table 1 below.

The following changes took place between 29 September 2019 and 19 November 2019:

Standard Life Aberdeen plc notified the Company on 30 September 2019 that its holding was 25,157,186 shares (5.87%); on 2 October 2019 that its holding was 24,046,406 shares (5.61%) and on 17 October 2019 that its holding was 23,981,445 shares (5.60%).

DIRECTORS

Details of the Directors as at 19 November 2019 and their biographies are shown on pages 54 to 57 and in the Notice of Meeting. The Directors at 28 September 2019 and their interests in shares are shown on page 92.

Stewart Gilliland stepped down from the Board on 31 December 2018. Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively. There were no changes to the Board of Directors subsequent to the year end, up to the date of this report.

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

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

MAJOR SHAREHOLDER BOARD REPRESENTATION

The Board maintains excellent relations with its two major shareholders, whose investment objectives are fully aligned with those of the Group and of other shareholders. Those two major shareholders maintain a dialogue via their representatives on the Board, all of whom are careful to ensure that there is no conflict between that role and their duty to the Board and other shareholders. The two largest shareholders have been very supportive of the Board's strategy, in particular the recent Ignite initiatives and their continued investment and presence on the Board adds value as we work towards common goals, and in pursuit of the Company's published strategy.

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

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

DIRECTORS' INDEMNITY

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

ARTICLES OF ASSOCIATION

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

CONFLICTS OF INTEREST

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

RELATED PARTY TRANSACTIONS

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

CHANGE OF CONTROL PROVISIONS

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

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

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

The rules of certain of the Company's share plans include provisions which apply in the event of a takeover or reconstruction, as set out in Table 2 below.

EMPLOYMENT POLICIES

The Group employed an average of 45,560 people in FY 2019 (FY 2018 44,802). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

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

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

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

Table 2: Provisions which apply in the event of a takeover or reconstruction

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

EMPLOYEE ENGAGEMENT

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

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

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above. In addition, and in order to align more closely with the 2018 Code, the Board has agreed that Dave Coplin will act as a link to the Board for the general workforce in order to strengthen the 'employee voice' at the Board. This will involve attending employee forums, focus groups and Company awards and providing feedback on values and behaviours, employee development and upskilling and ensuring that feedback is listened to and acted upon where appropriate.

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

Engagement with Mable (Mitchells & Butlers' online learning platform) has grown significantly since launch in July 2017, with over 22,300 people logging in each month to participate in formal learning and social discussion. Mable is used to deliver on-line interactive courses, 90% of which are designed in house, and utilises gamification, videos and social learning groups. Mable encourages engagement and proactive, discretionary learning with over 1.3 million courses completed since launch.

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

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. A total of 900,000 shares in the Company were purchased by the employee benefit trust during FY 2019.

RESPONSIBLE ALCOHOL POLICY

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

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 2020 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

FUNDING AND LIQUIDITY RISK

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £150m of unsecured committed bank facilities. Further information regarding these arrangements is included in note 4.2 to the financial statements on page 132. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury.

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

GOING CONCERN

The financial statements which appear on pages 98 to 155 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's financing is based on securitised debt and unsecured bank facilities and, within this context, a robust review has been undertaken of projected performance against all financial covenants. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See section 1 of the financial statements on page 111 for the Company's going concern statement, and page 45 for the Company's long-term viability statement.

ANNUAL GENERAL MEETING

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

AUDITOR

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

EVENTS AFTER THE BALANCE SHEET DATE

There are no post-balance sheet events to report.

DISCLOSURE OF INFORMATION TO AUDITOR

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

GREENHOUSE GAS ('GHG') EMISSIONS STATEMENT

The Group generates GHG emissions throughout its estate of bars and restaurants for heating, cooling, lighting and catering including the refrigeration and preparation of food and drink. There are new disclosure requirements for financial years starting after 1 April 2019 and these will be addressed in the Sustainability programme being undertaken by the Company. The disclosures below relate to current disclosure requirements.

GHG emissions per £m turnover were reduced by 14.9% during the 2018/19 tax year in comparison to 2017/18 in response to our continued approach to staff engagement on energy use and to several projects focusing on energy reduction across our estate.

Assessment parameters

Assessment year	2018/19 tax year.
Consolidation approach	Financial control.
Boundary summary	All pubs, bars and restaurants either owned or under operational control during the 2018/19 tax year were included.
Scope	<p>General classifications of greenhouse gas emissions scopes based on the GHG protocol and ISO14064-1:2006 within the context of the Group's operations are as follows:</p> <p>Scope 1 – direct greenhouse gas emissions from sources that are owned or controlled by the Group, e.g. fuel combustion of varying types, occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience.</p> <p>Scope 2 – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling.</p> <p>Scope 3 – indirect emissions as a consequence of the activities of the Group but occurring from sources not owned or controlled by the Group.</p> <p>This assessment focuses on Scope 1 and 2 emissions only (scope 3 is optional under the current regulations).</p>
Consistency with the financial statements	<p>Scope 1 and 2 emissions are reported for the 2018/19 and 2017/18 tax years to retain consistency with reporting of our carbon emissions under the Carbon Reduction Commitments (CRC).</p> <p>Leased and franchised sites are excluded as they are responsible for arranging and paying for their own energy.</p> <p>Alex sites in Germany are included. Emissions are based on UK average emissions multiplied by the number of Alex sites.</p>
Exclusions	<p>Scope 1 – Vehicle fleet emissions are excluded as they have been calculated to account for <1% of total emissions which falls below the materiality threshold.</p> <p>Scope 1 – Fugitive emissions within refrigeration and cooling equipment are not included as detailed records are not yet held.</p> <p>Outside of scope – Logs are 'outside of scope' because the Scope 1 impact of these fuels has been determined to be a net '0'. However, the CO₂e value of logs has been calculated to be <1% and would be excluded in any case as these fall below the materiality threshold.</p>
Emission factor data source	All carbon emission factors used are consistent with details provided in the respective Carbon Reduction Commitment submissions.
Assessment methodology	Defra Environmental Guidelines 2013.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Intensity threshold	Emissions are stated in tonnes CO ₂ e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.
Target	<p>Emissions during the 2017/18 tax year are provided for comparative purposes.</p> <p>It should be noted that the 2017/18 emissions have been re-calculated with electricity transmission and distribution losses removed as these are now classed as Scope 3 emissions.</p>

Greenhouse gas emissions source	2017/18		2018/19		Change from previous year		
	(tCO ₂ e)	(tCO ₂ e/£m)	(tCO ₂ e)	(tCO ₂ e/£m)	(tCO ₂ e)	(tCO ₂ e/£m)	% movement in tCO ₂ e/£m
Scope 1	90,021	41.2	84,388	38.8	-5,633	-2.4	-5.8%
Scope 2	149,721	68.5	118,696	54.6	-31,025	-13.9	-20.3%
Statutory total (Scope 1 & 2)*	239,742	109.7	203,084	93.4	-36,658	-16.3	-14.9%

* Statutory carbon reporting disclosures required by Companies Act 2006.

MODERN SLAVERY ACT 2015

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

By order of the Board

GREG McMAHON

Company Secretary and General Counsel
19 November 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 19 November 2019 and is signed on its behalf by:

TIM JONES
Chief Financial Officer
19 November 2019



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

BOB IVELL
Chairman

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

The latest financial information for Mitchells & Butlers and its group of companies is included in the 2019 Annual Report and Accounts (of which this corporate governance statement forms part) and which is available online at: www.mbplc.com/investors

For FY 2018, the Company reported against the 2016 edition of the UK Corporate Governance Code (the '2016 Code'). A revised version was published in July 2018 (the '2018 Code'), which became effective for accounting periods beginning on or after 1 January 2019. The key changes between the 2016 and 2018 versions are:

1. Enhanced board engagement with the workforce and wider stakeholders, including describing how the Company complies with its obligations to take into account stakeholder views pursuant to s.172 Companies Act 2006;
2. Demonstration of a clear business strategy aligned with a healthy corporate company culture;
3. A high-quality and diverse board composition; and
4. Proportionate executive remuneration that supports the long-term success of the business.

Mitchells & Butlers is currently required to report against the 2016 Code and does not need to report against the 2018 Code until FY 2020. Nevertheless, we are aware of the recommendations of the 2018 Code and, given that it is a higher governance standard than the

2016 Code, to the extent appropriate we will be reporting in line with, or exercise the 'comply or explain principle' in relation to, the 2018 Code as well as reporting in accordance with the 2016 Code.

In view of the importance attached by the Board to moving towards compliance with the 2018 Code, the Board established a Corporate Responsibility Committee in June 2019. The purpose of this new Committee is to allow more executive, leadership and functional management involvement, thereby demonstrating a significant commitment to the enhancement of governance in general and matters such as stakeholder engagement and is therefore seen as a positive development. More details of this Committee and its membership are set out on page 69 and its Terms of Reference are on the Company's website www.mbplc.com

PROGRESS TOWARDS ALIGNMENT TO THE 2018 CODE IN FY 2019

In pursuance of greater alignment with the 2018 Code, the following operational and administrative changes were made, or existing procedures were reinforced, during FY 2019:

1. Enhanced Board engagement with the workforce and wider stakeholders

The 2018 Code recommends that the Board should consider wider stakeholder views, in particular implementing arrangements for gathering the views of the workforce. The 2018 Code permits a designated non-executive director to fill this role and, accordingly, during FY 2019 the Board designated Dave Coplin for this role. The purpose of this appointment under the 2018 Code is to gather employee views, ensure employee views are taken into account in Board discussions and decision-making, and engage with the workforce to explain how executive remuneration aligns with Company remuneration policy. Work has commenced on this, with Dave Coplin being introduced to those executive managers who can help ensure that meetings and site visits are effective.

Mitchells & Butlers already has an Employee Forum with elected representatives which meets with the Executive Directors and members of the Executive Committee annually. Questions from the workforce in general are sought through the intranet to seek areas of concern or enquiry and to enable the Company to respond. This has been expanded by holding two Employee Forum meetings a year and the Employee Forum agenda includes an overview of how executive pay is aligned with the Company's strategic objectives. During FY 2019 the Terms of Reference of the Employee Forum were updated to reflect this.

The results of regular Board roadshows are used to update managers on performance and the latest developments, and employee feedback is included in Board papers where appropriate as part of the decision-making process.

2. A clear business strategy aligned with a healthy corporate company culture

In July 2018 the Financial Reporting Council published 'Guidance on the Strategic Report', strengthening the link between the purpose of the Strategic Report and the Directors' duty under section 172 Companies Act 2006, to promote the success of the Company. The revised guidance encourages companies to consider the broader matters that may impact the performance of the Company over the longer term including the interests of wider stakeholders, and it is now established Mitchells & Butlers practice that strategic proposals put to the Company's Board meetings include a requirement to consider the Directors' duties under section 172.

The specific provisions of section 172 require directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and, in doing so, have regard to the interests of other stakeholders. The specific requirements of section 172 are that Boards should consider:

- the likely consequences of decisions in the long term;
- the interests of the Company's employees;
- the fostering of business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the maintenance of high standards of business conduct; and
- the fairness of actions as between members of the Company.

The 2018 Code now specifically requires that the Board should understand the views of the Company's key stakeholders (including employees, suppliers, customers and others) and keep stakeholder engagement mechanisms under review so they remain effective. The 2018 Code also recommends that there should be regular reporting as to how the Board has complied with this engagement approach in its decision-making

processes. The 2018 Code sets out a series of aspects to be taken into account in demonstrating the Board has complied with its section 172 responsibilities. These are listed below, together with Company procedures which were either already in place or newly adopted during FY 2019, to align Mitchells & Butlers' corporate behaviour with the spirit and values of the 2018 Code:

a. Culture

Mitchells & Butlers already has in place a set of PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guests. The Board observes these PRIDE values in discharging its everyday responsibilities and considering decisions and proposals and encourages all levels of the organisation to do so.

b. Strategy

In demonstrating that the Board is promoting the success of the Company and taking decisions with regard to their long-term impact, the Board must ensure it has, and regularly reviews, its strategy. Developments arising from the strategy review are followed up, documented and, on a regular basis, the Board reviews whether the Company is operating in line with that strategy and/or there needs to be a revision of the strategy to reflect external and possibly internal changes in the dynamics of the business. Board papers refer to whether they reflect a proposal that is aligned to, or diverges from, the agreed strategy.

Principle B and Provisions 1 and 2 of the 2018 Code require the Board to:

- describe how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy;
- establish the company's purpose, values and strategy, ensure that these and its culture are aligned and describe the activities the Board takes to monitor and implement this culture; and
- describe the company's approach to investing in and rewarding its workforce.

Details of how the Board achieves this are given in the Strategic report on pages 10 to 49.

c. Training and awareness

There is an induction process for all Directors on appointment and the Company Secretary is available to all Directors, whether of the Company or any of the subsidiaries, for consultation and guidance on matters of governance in relation to any aspects of the affairs of any part of the Group. As circumstances or new areas develop, whether in the operations of the business or externally, appropriate training will be considered to ensure that each Director can be sure he/she is involved in decision making and oversight with the benefit of the correct amount of knowledge as to what is relevant for consideration.

The induction process ensured that Directors were aware of, and understood, the requirements under section 172. Nevertheless, in April 2019, a comprehensive guide was sent to all subsidiary Directors to provide training below Board level in relation to section 172 requirements, focusing on how such considerations should be documented in the future, to ensure a proper understanding of what needs to be considered and what evidence is required to be presented when putting proposals to the Board. Ongoing training on their responsibilities is also provided to subsidiary company directors.

d. Information

Board paper procedures now contain specific references to the factors referred to in section 172 Companies Act 2006, so they can be brought to the Board's attention where appropriate.

e. Policies and processes

The business has an existing comprehensive suite of policies and processes and these are updated, revised and re-communicated regularly.

f. Stakeholder engagement

Engagement with the workforce is addressed above and engagement with guests is dealt with through the Guest Health initiatives. Engagement with key, critical suppliers is addressed through the supplier segmentation tiering process where we consult with suppliers on a regular basis which varies from monthly interaction to annual reviews, depending on where the supplier appears on the Company's tier 1 to tier 4 ranking (which is a multi-factor process involving criticality, volume, spend size and availability of substitute products).

3. Board composition and diversity

a. Board composition

Following the decision of Stewart Gilliland to step down from the Board on 31 December 2018, the Board appointed two new independent Non-Executive Directors, Jane Moriarty and Susan Murray, which enhanced both the independence and diversity of the Board. Immediately on appointment, Susan Murray became the new Senior Independent Director, a post which had been temporarily vacant following Stewart Gilliland's departure.

b. Board diversity

Principle J of the 2018 Code states that Boards are encouraged to 'promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths' through their appointments and succession planning. The purpose is to ensure that there is a balance of views from different genders and other experiences and skill sets around the Board table so that decision-making can be made with good oversight of all relevant factors.

The Company already had a Board Diversity Policy in place, but during FY 2019 it was also agreed that talent pipeline presentations to the Board should include the extent to which diversity aspects have been taken into account in development plans/recruitment, and that ethnicity and disability reporting should be addressed, to the extent that the Company has reliable data.

In pursuance of a more balanced Board, Jane Moriarty and Susan Murray were appointed in FY 2019. It is felt that not only will their appointment create a more diverse gender profile, but that their broader experience outside the specific characteristics of the business of the Company and the industry will strengthen the balance and breadth of the Board's decision-making.

Gender Pay Gap data is already overseen by the Remuneration Committee and details are set out on page 82 of the Annual report on remuneration.

4. Proportionate executive remuneration

This is dealt with on pages 82 and 94 of the Annual report on remuneration.

CORPORATE GOVERNANCE

The Board is committed to high standards of corporate governance. I am delighted to be able to report that the Board considers that the Company has complied throughout the year ended 28 September 2019 with all the Provisions and best practice guidance of the 2016 Code and the 2018 Code except those in respect of Board composition and the constitution of Board Committees. This corporate governance statement addresses the small number of areas where, for reasons specific to Mitchells & Butlers, there are divergences from the 2016 Code and 2018 Code as described below.

The Audit Committee report and Nomination Committee report which are set out on pages 72 to 75 and page 68 respectively of the Annual Report also form part of this corporate governance statement and they should all be considered together.

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the 2016 Code and the 2018 Code. There are, however, a small number of areas where, for reasons specifically related to the Company, the detailed Provisions of the 2016 Code and the 2018 Code were not fully complied with in FY 2019. These areas are kept under regular review. A fundamental aspect of both the 2016 Code and the 2018 Code is that in each case it contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, both the 2016 Code and the 2018 Code specifically recognise the concept of 'Comply or Explain' in relation to divergences from it.

COMPLIANCE WITH THE CODE

Except for the matters which are explained below (in line with the 'Comply or Explain' concept), the Company complied fully with the Principles and Provisions of the 2016 Code and the 2018 Code throughout the financial year in respect of which this statement is prepared (and continues to do so as at the date of this statement).

EXPLANATION FOR NON-COMPLIANCE WITH PARTS OF THE 2016 CODE AND THE 2018 CODE

During the year, there were six divergences from full compliance with the 2016 Code and the 2018 Code as set out below by reference to specific paragraphs in the relevant UK Corporate Governance Code. Except in relation to 2018 Code Provision 19, there is similar best practice guidance on these issues in both codes.

1. Chairman's tenure (2018 Code Provision 19)

Bob Ivell was appointed to the Board of Mitchells & Butlers in May 2011. The performance of Bob Ivell has been subject to rigorous review, including with regard to his independence. The Directors believe that Bob Ivell's in-depth knowledge of the business and industry, combined with the consistency he provides through continued service and his good working relationships across the Board and with management of the Company, remains invaluable; and that it is in the best interests of all shareholders and other stakeholders, that the Company as a whole continues to benefit from Bob's experience. Bob Ivell continues to demonstrate the attributes of an independent Non-Executive Director, including contributing to constructive challenge and debate at meetings and the Board is satisfied that Bob's tenure has not impacted his independence. In reaching this conclusion, Bob's other current appointments have been taken into consideration.

In light of this, Mitchells & Butlers expects to explain its position with regard to 2018 Code Provision 19 on Chair tenure, rather than to comply with it, in its Annual Report 2020, when reporting against the 2018 Code comes into effect.

2. Senior Independent Director (2016 Code Provision A.4.1 and 2018 Code Provision 12)

Following the departure of Stewart Gilliland on 31 December 2018, there was no nominated Senior Independent Director from that time until the appointment of Susan Murray as such on 8 March 2019. This arose due to the Board searching to recruit a suitable replacement for that role in the intervening period. The Board was aware that in the meantime this led to a period of non-compliance, but accepted that it was inevitable while the recruitment process was underway and would last only until the new appointment was made. Susan Murray was the Senior Independent Director at the year end of 28 September 2019 and remains so.

3. Composition of the Board (2016 Code Provision B.1.2 and 2018 Code Provision 11)

During the year, 2016 Code Provision B.1.2 and 2018 Code Provision 11, which require that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent, were not complied with. Accordingly, this had consequential implications on the composition of the Audit, Nomination and Remuneration Committees.

During FY 2019, Stewart Gilliland resigned from the Board on 31 December 2018, and Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively. In accordance with the disclosure requirements of Provision B.2.4 of the 2016 Code and Provision 20 of the 2018 Code, the Company confirms that the services of Spencer Stuart were engaged for both appointments, and that there is no other connection between Spencer Stuart and the Company, or its Board, or any of its Directors.

The Board does not comply fully with the requirement for at least half of its members to be independent, due to the presence of four shareholder representatives on the Board, representing our two largest shareholders. These two shareholders maintain a dialogue via their representatives on the Board, all of whom are careful to ensure that there is no conflict between that role and their duty to the Board and other shareholders.

The two shareholders concerned have made extremely significant investments in the Company and the Board considers their investment objectives to be fully aligned with those of the Group and of other shareholders. The Board maintains excellent relations with its major shareholders and considers their commitment to be a significant factor in the ongoing stability of the Board, particularly as a result of their strong support of the Board's long-term strategy, including the recent Ignite initiatives. Their continued investment and presence on the Board adds value as the Group works towards common goals, and in pursuit of the Company's published strategy.

The Board intends to continue to work closely with the representatives of its major shareholders to further the interests of the Company and no change is proposed to the shareholder representative profile of the Board in the immediate future.

4. Constitution of Committees

Throughout FY 2019, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the 2016 Code and the 2018 Code.

(i) Nomination Committee (2016 Code Provision B.2.1 and 2018 Code Provision 17)

The Nomination Committee was not fully compliant with the 2016 Code and 2018 Code in FY 2019, in that it did not contain a majority of independent Non-Executive Directors as required by 2016 Code Provision B.2.1 and 2018 Code Provision 17. This occurred for a short period only, which started in the period following the resignation of Stewart Gilliland and ceased following the appointment of additional independent Non-Executive Directors. At the year end of 28 September 2019, the Nomination Committee was fully compliant with 2016 Code Provision B.2.1 and 2018 Code Provision 17.

(ii) Audit Committee (2016 Code Provision C.3.1 and 2018 Code Provision 24); and

(iii) Remuneration Committee (2016 Code Provision D.2.1 and 2018 Code Provision 32)

The Audit and Remuneration Committees are not fully compliant with the relevant Provisions of the 2016 Code and the 2018 Code. 2016 Code Provisions C.3.1 and D.2.1 and 2018 Code Provisions 24 and 32 respectively specify that both the Audit and Remuneration Committees should consist of independent Non-Executive Directors and both Committees include the presence of representatives of major shareholders. The Board has carefully considered the implications of this and has concluded that it constitutes a valid exception under the 'comply or explain' regime of the 2016 Code and 2018 Code, in that the two shareholders concerned are committed to the progression and growth of the Company, have made a substantial financial commitment and are fully supportive of the Group's strategy. The shareholder representatives have significant commercial and financial experience and make a substantial contribution to the Committees and the Group remains fully committed to working with them on matters affecting the Group and its activities in the future.

The possibility of appointing a further independent Non-Executive Director remains a matter for the Nomination Committee to review and is considered regularly.

The information required by Disclosure Guidance and Transparency Rule ('DGTR') 7.1 is set out in the Audit Committee report on pages 72 to 75. The information required by DGTR 7.2 is set out in this corporate governance statement, other than that required under DGTR 7.2.6 which is set out in the Directors' report on pages 58 to 61.

BOARD COMPOSITION

The Board started the year with 11 Directors and ended it with 12. Stewart Gilliland stepped down from the Board on 31 December 2018. Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively. The table opposite lists the composition of the Board during the year.

THE BOARD

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

During FY 2019 there were ten scheduled Board meetings. There were also four meetings of the Audit Committee, four meetings of the Remuneration Committee and two meetings of the Nomination Committee. The table below shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Except as noted in the table below, full attendance was recorded for all Directors in respect of all Board and Committee meetings during FY 2019, but where Directors are unable to attend a meeting (whether of the Board or one of its

Committees), they are provided with all the papers and information relating to that meeting and are able to discuss issues arising directly with the Chairman of the Board or Chair of the relevant Committee. In addition, the Board members meet more informally approximately four times a year and the Chairman and the Non-Executive Directors meet without the Executive Directors twice a year.

There are nine Board meetings currently planned for FY 2020.

The Company Secretary's responsibilities include ensuring good information flows to the Board and between senior management and the Non-Executive Directors. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development. This includes regular corporate governance and business issues updates, as well as the use of operational site visits and the provision of external courses where required. The Company Secretary facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements and including guidance on the requirements of, and Directors' duties in connection with, the 2016 Code, the 2018 Code and the Companies Act 2006 as well as other relevant legislation.

An externally facilitated Board evaluation is required every three years and the last one took place in FY 2018, with the next one due in FY 2021. In FY 2019, the Company Secretary co-ordinated the internal performance evaluation of the Board, which was led by the Chairman, details of the output of which are set out at page 71. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Directors who served during the year				
Bob Ivell	10 (10)	n/a	4 (4)	2 (2)
Keith Browne	10 (10)	n/a	n/a	n/a
Dave Coplin	9 (10)	4 (4)	4 (4)	1 (2)
Stewart Gilliland ¹	3 (3)	1 (1)	2 (2)	1 (1)
Eddie Irwin	10 (10)	4 (4)	4 (4)	2 (2)
Tim Jones	10 (10)	n/a	n/a	n/a
Josh Levy	10 (10)	n/a	4 (4)	n/a
Jane Moriarty ²	6 (6)	2 (2)	2 (2)	1 (1)
Susan Murray ³	5 (5)	2 (2)	2 (2)	1 (1)
Ron Robson	9 (10)	4 (4)	n/a	2 (2)
Colin Rutherford	10 (10)	4 (4)	4 (4)	2 (2)
Phil Urban	10 (10)	n/a	n/a	n/a
Imelda Walsh	10 (10)	4 (4)	4 (4)	2 (2)

1. Resigned 31 December 2018.

2. Appointed 27 February 2019.

3. Appointed 8 March 2019.

Dave Coplin was unable to attend the December 2018 Board and Nomination Committee meetings due to illness. Ron Robson was unable to attend the July 2019 meeting due to an unavoidable prior personal commitment.

Directors

The following were Directors of the Company during the year ended 28 September 2019:

		Date appointed	Date of change of role
Directors who served during the year			
Bob Ivell	Independent Non-Executive Director ¹	09/05/11	14/07/11
	Interim Chairman ¹	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne ²	Non-Executive Director	22/09/16	–
Dave Coplin	Independent Non-Executive Director	29/02/16	–
Stewart Gilliland ³	Independent Non-Executive Director	23/05/13	31/12/18
	Senior Independent Director	02/02/15	31/12/18
Eddie Irwin ²	Non-Executive Director	21/03/12	–
Josh Levy ⁴	Non-Executive Director	13/11/15	–
Tim Jones	Chief Financial Officer	18/10/10	–
Jane Moriarty	Independent Non-Executive Director	27/02/19	–
Susan Murray	Independent Non-Executive Director and Senior Independent Director	08/03/19	–
Ron Robson ⁴	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
Colin Rutherford	Independent Non-Executive Director	22/04/13	–
Phil Urban	Chief Executive	27/09/15	–
Imelda Walsh	Independent Non-Executive Director	22/04/13	–

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Group Limited.
3. Stepped down from the Board on 31 December 2018.
4. Nominated shareholder representative of Piedmont Inc.

At the start of the year, the Board was made up of 10 male and one female members. During the year Stewart Gilliland stepped down from the Board on 31 December 2018 and Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively. At the end of the year, the Board was made up of nine male and three female members.

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

At the Company's forthcoming Annual General Meeting in 2020, the Directors appointed during the year (Jane Moriarty and Susan Murray) will be required to stand for election for the first time and the remaining Directors will be required to stand for annual re-election, in accordance with the Company's Articles of Association. Their biographical details as at 19 November 2019 are set out on pages 54 to 57, including their main commitments outside the Company. In addition, Provision 18 of the 2018 Code requires that the papers accompanying the resolutions to elect or re-elect directors, set out the specific reasons why the individual director's contribution is, and continues to be, important to the Company's long-term sustainable success and this information can be found in the accompanying Notice of Meeting.

Provision 15 of the 2018 Code states that full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointments. The Executive Directors may be permitted to accept one external Non-Executive Director appointment with the Board's prior approval and as long as this is not likely to lead to conflicts of interest. During FY 2019, neither of the Executive Directors held any such external directorship, nor did they hold any other significant appointments, as a director or otherwise, and that remains the case as at the date of this Annual Report.

Division of responsibilities between Chairman and Chief Executive

In accordance with Provision A.2.1 of the 2016 Code and Provision 9 of the 2018 Code, the roles of Chairman and Chief Executive should not be exercised by the same individual.

The division of responsibilities between the Chairman and the Chief Executive is clearly established as required by Principle A.2 of the 2016 Code and Principle G of the 2018 Code and these are set out in writing and have been agreed by the Board. In particular, it has been agreed in writing that the Chairman shall be responsible for running the Board and shall provide advice and assistance to the Chief Executive. He also chairs the Nomination Committee, is a member of the Remuneration Committee and attends, by invitation, meetings of the Audit Committee. He also chairs the Market Disclosure Committee, Corporate Responsibility Committee, the Property Committee and the Pensions Committee.

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 69) and attends the Nomination, Remuneration and Audit Committee by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of the Market Disclosure Committee, the Property Committee and the Pensions Committee.

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

Chairman

Provision A.2.1 of the 2016 Code and Provision 9 of the 2018 Code provides that the Chairman should, on appointment, meet the independence criteria set out in Provision B.1.1 and Provision 10 respectively. Bob Ivell met these independence criteria on appointment.

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

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

Chief Executive

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

Senior Independent Director

The Senior Independent Director, Stewart Gilliland, stepped down from the Board on 31 December 2018 in order to concentrate on his other roles. He was replaced by Susan Murray, who became Senior Independent Director immediately upon her appointment to the Board on 8 March 2019.

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

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

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board. The Board's view on the tenure of Bob Ivell as Chairman is set out on page 65.

Ron Robson and Josh Levy were appointed to the Board as representatives of one of the Company's largest shareholders, Piedmont Inc., and were therefore not regarded as independent in accordance with the 2016 Code and the 2018 Code.

Eddie Irwin and Keith Browne were appointed to the Board as representatives of another of the Company's largest shareholders, Elpida Group Limited, and were therefore not regarded as independent in accordance with the 2016 Code and the 2018 Code.

There are currently five independent Non-Executive Directors on the Board: Colin Rutherford, Imelda Walsh, Dave Coplin, Jane Moriarty and Susan Murray.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 87, the Non-Executive Directors received no remuneration from the Company during the year. With effect from 1 January 2020, the base fee for Non-Executive Directors will remain at £53,000 per annum, the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will remain at £13,000 per annum, and the fee paid to Dave Coplin for his new role as 'employee voice' will remain at £13,000 per annum.

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

Board information and training

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

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

COMMITTEES

The Audit, Remuneration, Nomination and Corporate Responsibility Committees have written terms of reference approved by the Board, which are available on the Company's website. Those terms of reference are each reviewed annually by the relevant Committee to ensure they remain appropriate.

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 72 to 75 which is incorporated by reference into this statement.

Remuneration Committee

Details of the Remuneration Committee and its activities during the year are included in the Report on Directors' remuneration on pages 76 to 97.

Nomination Committee

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning for the Board and the Executive Committee and reviewing the output of the Board effectiveness review. In compliance with the disclosure requirements of Provision B.2.4 of the 2016 Code and Provision 23 of the 2018 Code, there is an ongoing process of review of the make-up of the Board and for Board succession, which is carried out by the Nomination Committee and led by the Chairman. The Nomination Committee engages external search agencies when required and ensures that all candidates are identified and assessed against pre-determined criteria. Gender balance is dealt with by the Nomination Committee on a regular basis and includes assessment of gender balance at senior management level.

In accordance with the disclosure requirement in Provision 23 of the 2018 Code, as at the date of this report, the gender balance for those in the senior management team and their direct reports, was split as to 51% female and 49% male. For this purpose, the senior management team comprises the Executive Committee.

The gender balance of the Executive Committee (which includes two Board members) is 80% male and 20% female. Further information on the Executive Committee is given on page 69.

During the year, the Nomination Committee considered the composition of the Board and, following the year end, has assessed the outcome of the Board effectiveness review which was carried out during the financial year now reported on. More details of the conclusions of that review are on page 71. The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board.

Diversity and Inclusion Steering Group and Board Diversity Policy

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

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

Statement:

The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new

Director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Objectives:

- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship. All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report, the Hampton-Alexander Review, the 2016 Code and the 2018 Code. These will be reviewed on an annual basis.

Progress against the policy:

The Board continues to monitor progress against this policy. In terms of Board diversity, the proportion of women on the Board was 9% as at the year ended 29 September 2018, increasing to 25% at 28 September 2019, following the resignation of Stewart Gilliland on 31 December 2018 and the subsequent appointment of Jane Moriarty and Susan Murray during FY 2019. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of the Mitchells & Butlers Group, can be found in the Value Creation Story section on page 34.

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

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

	Appointment date	Member at 28/09/19
Bob Ivell (Chair)	11/07/13	Y
Dave Coplin	29/02/16	Y
Stewart Gilliland*	11/07/13	N
Eddie Irwin	11/07/13	Y
Jane Moriarty	27/02/19	Y
Susan Murray	08/03/19	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

* Stepped down from the Nomination Committee on 31 December 2018.

During the year, the Company did not comply with 2018 Code Provision 17 (or the equivalent Provision B.2.1 of the 2016 Code) as the Nomination Committee did not comprise a majority of independent Non-Executive Directors.

MARKET DISCLOSURE COMMITTEE

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

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

CORPORATE RESPONSIBILITY COMMITTEE

A Corporate Responsibility Committee was established in June 2019 and its purpose is to allow more executive, leadership and functional management involvement in matters of corporate responsibility and sustainability. Its Terms of Reference are on the Company's website www.mbplc.com

The Corporate Responsibility Committee comprises Bob Ivell (Chair), Ron Robson, Imelda Walsh, Colin Rutherford, Eddie Irwin, Susan Murray, Jane Moriarty and Dave Coplin. It is likely that the Chief Executive, Phil Urban, will be invited to attend regularly.

Following approval of the Committee's formation, a work plan for FY 2020 was established with a 'road map' and targets. A multi-disciplinary steering committee has been tasked with carrying out first level oversight of the plan, with regular reports to the Corporate Responsibility Committee.

EXECUTIVE COMMITTEE

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

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

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

GENERAL PURPOSES COMMITTEE

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

PROPERTY COMMITTEE

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

PORTFOLIO DEVELOPMENT COMMITTEE

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

PENSIONS COMMITTEE

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

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

Throughout FY 2019, the work of the Pensions Committee focused primarily on the monitoring of the performance of the Group's pensions arrangements, the assessment of the impact of the decisions in relation to Guaranteed Minimum Pensions in the Lloyds Banking Group case, the ongoing oversight of the Company's involvement in the application to court by the Trustee of the Mitchells & Butlers Pension Plan for rectification of the Trust Deed and Rules of that plan as referred to at note 4.5 of the Group Financial Statements, and the finalisation of the 2019 Actuarial Valuations of the Company's two defined benefit pension schemes, including the agreement to the deficit recovery plans for both schemes with an unchanged schedule of future contributions.

TREASURY COMMITTEE

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

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

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

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

INDEPENDENT ADVICE

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

CODE OF ETHICS

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). The Ethics Code was reviewed and re-communicated to all employees in FY 2019 to ensure it was kept clearly in focus. Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

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

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

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

Principle E and Provision 6 of the 2018 Code require the Board to be clear how its approach to whistleblowing has changed from an Audit Committee led approach to a Board led approach. Although the Audit Committee continues to receive regular reports on whistleblowing activity, each set of full Board papers also includes as part of the report from the Company Secretary the number and assessment of any whistleblowing reports received and, where relevant, the actions taken in respect of reports which are, on investigation, found to be sustainable.

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

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the 2016 Code and the 2018 Code for the year under review and to the date of approval of the Annual Report. Such procedures are in line with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and are regularly reviewed by the Audit Committee.

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

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

The Group's risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 40 to 44. More details of the work of the Risk Committee are included in the Audit Committee report on pages 72 to 75.

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

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

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

In accordance with the 2018 Code, during the year the Audit Committee completed (and reported to the Board its conclusions in respect of) its annual review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, in the opinion of the Audit Committee, the review did not indicate that the system was ineffective or unsatisfactory and to the extent that weaknesses in internal controls were identified, the Audit Committee confirmed that necessary remedial action plans were in place. The Audit Committee is not aware of any change to this status up to the date of approval of this Annual Report.

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

SHAREHOLDER RELATIONS

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

On a more informal basis, the Chairman, Chief Executive and the Chief Financial Officer regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders. The voting rights of Piedmont Inc. and Elpida Group Limited are set out in the Directors' report on page 58.

The AGM provides a useful interface with shareholders, many of whom are also guests in our pubs, bars and restaurants. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated. At the January 2019 Annual General Meeting, the Company had five resolutions where 20% or more of votes cast, were cast against the resolution. These were in respect of the re-election of Keith Browne, Eddie Irwin, Bob Ivell, Josh Levy and Ron Robson and resulted in the Company featuring in the Investment Association's public register of shareholder dissent. The Company made it clear at that AGM that it recognised both the scale of non-independence of the Board composition and the lack of gender diversity, and that it was well advanced in the recruitment process for two new independent Non-Executive Directors; however the recruitment process had not been sufficiently near to conclusion to allow reference to such in the 2018 Annual Report and Notice of Meeting.

In February 2019, we announced the appointments of Jane Moriarty and Susan Murray, taking the Board to a total of 12 members, five of whom are independent Non-Executive Directors (including three female independent Non-Executive Directors). This takes the total percentage of women on our Board from 9% in FY 2018 to the current ratio of 25%.

BOARD EFFECTIVENESS EVALUATION AND CHAIRMAN'S EVALUATION AND APPRAISAL

During the year, the Board also conducted an internally facilitated Board effectiveness evaluation, led by the Chairman with support from the Company Secretary and General Counsel. In accordance with Provision B.2.3 of the 2016 Code, this included consideration and review in respect of any Director who had served for more than six years. The review concluded that the Board continues to function well with a good blend of experience from both within and outside the Company's industry and a good mix of skills. Areas for improvement related to the timing and locations of Board meetings so that more time could be spent in the Group's operational businesses in the UK and Germany, continued focus on the operational delivery and capital programmes alongside keeping forward-looking industry and sector developments under review as part of the ongoing strategic consideration of emerging trends and developments both within and outside the Company's sector and increasing the opportunity for Board members to have closer engagement with operational management. These themes, which also align with the Company's work on its development of the approach to culture and purpose in line with the recommendations of the 2018 Code, have been agreed to be implemented in 2020.

The annual appraisal of the Chairman's performance was conducted by the Senior Independent Director, Susan Murray, with the rest of the Board (without the Chairman present) and the conclusions fed back to the Chairman.

Annual reviews of the Chairman's performance will continue to be conducted as required by the 2018 Code.

GOING CONCERN

The Directors' statement as to the status of the Company as a going concern can be found on page 60.



Introduction from the Audit Committee Chairman

COLIN RUTHERFORD
Chairman of the Audit Committee

On behalf of the Board, I present the report of the Audit Committee for the financial year ended 28 September 2019. During the period, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee maintained an appropriate level of engagement with the Chief Financial Officer and the Group Risk Director, other key individuals and their teams who collectively provide an appreciation and rigorous insight into how the Group functions and reports. The Committee is always very grateful for the detailed instruction these interactions provide and this, in turn, significantly assists towards the promotion and efficient execution of the Committee's oversight role, ensuring confidence in reporting to the wider Board.

ENGAGEMENT WITH AUDITORS AND THIRD PARTIES

The Committee continued to engage formally, regularly and at an appropriate level of detail with our external auditors, internal auditors (also externally resourced) and other third-party advisers as necessary. This has enabled the Committee to maintain an appropriate understanding of how our auditors and advisers interact and test our comprehensive risk functions. The Committee's engagement during the whole of the auditing and advisory process conveys confidence in their collective fieldwork conclusions.

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

EFFECTIVENESS OF INTERNAL CONTROLS AND GROUP ASSURANCE AND RISK FUNCTION

The above efforts provided the Committee with a clear and detailed understanding of the principal financial and operational risks throughout the period. The Committee continued to focus on challenging the effectiveness of internal controls, the robustness of assurance and risk management processes and in assessing the importance of, and acting as required upon, all reported information received from our external and internal auditors and third-party advisers.

The Committee remain committed to maintaining an open and constructive dialogue on relevant audit matters with all shareholders. Therefore, should you have any comments or questions on any aspects of this report, or indeed the wider financial statements, may I respectfully ask you to please email myself, care of Adrian Brannan, Group Risk Director, at company.secretariat@mbplc.com

MEMBERSHIP AND REMIT OF THE AUDIT COMMITTEE

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

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

At the date of the Annual Report, the Audit Committee comprises five independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Dave Coplin, Jane Moriarty and Susan Murray and two further Non-Executive Directors nominated by substantial shareholders, Ron Robson and Eddie Irwin. In accordance with Code provision C.3.1 the Board considers that Colin Rutherford has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on pages 54 to 57.

The Audit Committee continued to meet quarterly during FY 2019. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm and the internal Group Assurance function.

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

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 87.

SUMMARY TERMS OF REFERENCE

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

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

Accordingly, in FY 2019 no material changes were made to the terms of reference of the Audit Committee, and the work of the Audit Committee is kept under review with the expectation that any such matters which come to light are included in the review scheduled for FY 2020.

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

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

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

The role and responsibilities of the Audit Committee are to:

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

KEY ACTIVITIES OF THE AUDIT COMMITTEE

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

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the external auditor's half year and full year reports;
- reappointment and evaluation of the performance of the external auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2019 regarding the level of achievement and the scope of the annual internal audit plan for FY 2020;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group;
- plans for the implementation of IFRS 16; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures including a summary of reports received during FY 2019.

DISCLOSURE OF SIGNIFICANT ISSUES CONSIDERED

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 98 to 155.

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

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

EFFECTIVENESS OF INTERNAL AUDIT

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

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the audit plan on a quarterly basis. The FY 2019 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit. A similar approach has been employed in relation to the FY 2020 internal audit plan.

The principal objectives of the internal audit plan for FY 2019 were, and remain for FY 2020:

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

During FY 2019, 18 audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee. Internal audit recommendations are closely monitored through to closure via a web-based recommendation tracking system, introduced in FY 2013 and updated in FY 2019, which has significantly improved the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

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

RISK MANAGEMENT FRAMEWORK

As disclosed in the 'Risk and uncertainties' section on pages 40 to 44 the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

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

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, within the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks. During FY 2019, Risk Committee meetings continued to include a cross-functional, detailed review of the Group's key risks. This process, which was introduced in FY 2016, continues to prove to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

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

CONFIDENTIAL REPORTING

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2019 (major issues being defined for this purpose as matters having a financial impact of greater than £100k). The Board also receives a report on whistleblowing in the Company Secretary's regular report to Board meetings.

EXTERNAL AUDITOR APPOINTMENT

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The most recent audit partner rotation took place in 2016 whereby John Charlton became the lead Audit Partner. The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. Under the terms of that Order, the Committee has agreed and has put plans in place, to carry out a competitive audit tender in early 2020, in respect of the financial year ending in 2021 to ensure the continued objectivity, independence and value for money of the statutory audit.

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

EXTERNAL AUDITOR'S INDEPENDENCE

The external auditors should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's auditor as set out below. That policy has been reviewed in FY 2019 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Company's website. Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

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

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

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

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

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the audit firm. Details of the remuneration paid to the auditor, and the split between audit and non-audit services, are set out at note 2.3 of the financial statements on page 118.

EXTERNAL AUDIT ANNUAL ASSESSMENT

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

FAIR, BALANCED AND UNDERSTANDABLE STATEMENT

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

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

COLIN RUTHERFORD

Chairman of the Audit Committee
19 November 2019

THE GOING CONCERN AND LONG-TERM VIABILITY STATEMENT CAN BE FOUND ON PAGES

99 and 45 respectively





Dear fellow shareholder

I am pleased to present the Directors' remuneration report in respect of the financial year, which ended on 28 September 2019.

IMELDA WALSH

Chair of the Remuneration Committee

BACKGROUND AND BUSINESS CONTEXT

When our Chief Executive, Phil Urban, was appointed in late 2015 he inherited a business that was in like-for-like sales and profit decline, competing in a market with excess supply and facing significant cost pressures of circa £60m per annum, at a time when, as now, there was an uncertain economic outlook and fragile consumer confidence.

Over the past two years I have explained how the strategic priorities set by Phil shortly after his appointment:

- to build a balanced business;
- instil a more commercial culture; and
- drive an innovation agenda,

have been executed successfully through the Ignite programme of initiatives. This is enabling a return to both sales and profit growth, consistent outperformance of the market, guest satisfaction improvement across all of Mitchells & Butlers' brands and formats and employee engagement at its highest ever level.

Turning specifically to performance during FY 2019, sales in the year were £2,237m, an increase of £85m on FY 2018 and a like-for-like sales^a improvement of 3.5% which continues to be above the market (as measured by the Coffey Peach business tracker^b) and represents now almost three years of consistent market outperformance. The Mitchells & Butlers portfolio is broad and, as such, brands and offers perform better in different circumstances. For example, our pubs and restaurants with gardens trade very strongly in good weather, whereas warm weather can be a negative for our carvery businesses (Toby Carvery and Stonehouse). Conversely, in colder weather our carvery businesses trade strongly as do brands like Miller & Carter, and in school holidays Harvester is a family favourite. It is therefore very encouraging that every brand and offer across the portfolio has delivered sales and profit growth in the year.

Our capital investment programme continues to be an important factor in building a balanced business and 248 capital investment projects were undertaken during the year, with investment returns continuing to improve year-on-year in a very competitive market. The scale of our capital plan over recent years has meant that the average length of time between investment in a business is on course to reduce from around twelve years to between six and seven years, an important factor in a market where consumer expectations continue to increase.

Technology plays an important role and last year I explained how the reputation.com platform allowed our managers to access social media feedback from all channels in one place. This platform has now evolved further to include feedback received directly from guest surveys as well as social reviews. During FY 2020 it will also enable our managers to respond and track any customer complaints. Technology is also facilitating the expansion of our delivery business and we anticipate that this will continue to be an opportunity for growth in the future.

The link between high levels of engagement, guest satisfaction and, ultimately, sales and profitability has never been stronger and it is very encouraging that employee engagement scores have improved once again to an all time high. Turnover of all employee groups has fallen during FY 2019, with retail team member turnover falling by 3ppts to 81% following a slight increase in FY 2018. The number of employees from the European Union has remained static despite the ongoing uncertainty. The Company has proactively sought to keep our EU colleagues up to date with regard to their options in relation to applying for Settled Status.

The end of freedom of movement will ultimately have an adverse impact on the availability of talent, particularly in kitchen roles and key to addressing this shortage is our apprenticeship programme, with around 2,300 employees recruited across a number of roles during the last twelve months. The quality of our training has been recognised during the year, winning a number of awards including overall winner at the CIPD People Management Awards.

FY 2019 Remuneration Outcomes

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

FINANCIAL MEASURES – OPPORTUNITY 70% (OUT OF 100%)

Operating Profit (outcome 59.5% out of 70%)

In setting the Operating Profit target range the Committee considered a number of factors, including, once again, the significant cost headwinds the business continues to face. For the last financial year these ran at circa £64m, the third year in which we have faced this level of cost inflation. As before, these were attributable to labour and energy, along with further food and drink inflation. The Committee also took into account the range of initiatives put in place as part of the Ignite programme and to what extent these would offset the cost headwinds. More broadly, the Committee considered the general and sector outlook, especially given the recent increase in business failures and CVAs across the industry. In this context, delivering profit growth was considered by the Committee to be a very strong performance. Target performance was therefore set slightly above the FY 2018 outturn (£303m) and consensus, which the Committee felt balanced the need for fair but demanding targets. The level required for a maximum award required a significant level of performance ahead of both the Company's business plan and market expectations.

The Operating Profit outcome of £317m was just over 103% of target and in excess of the performance required for a maximum payout for this element of the bonus scheme. In line with established practice the Committee undertook a thorough quality of earnings assessment, to understand in detail the drivers of performance. Whilst the vast majority of the growth has been driven through strong management action and implementation of the Ignite initiatives, a modest proportion of the growth seen in FY 2019 was achieved as a result of the utilisation of onerous lease provisions that were charged to a large separately disclosed item in FY 2017. With this in mind the Committee has scaled back the bonus outcome by removing the benefit of these separately disclosed onerous lease provisions in the income statement.

This results in an Operating Profit for bonus purposes of £313.3m (102% of target) and a payout equivalent to 59.5% of salary (out of 70%) for Executive Directors. The Committee felt that this approach to moderating the bonus outcome was fair and the resulting payout reflected the very strong performance and improvement on the prior year, with the Company returning to Operating Profit growth despite the unprecedented cost challenges, and the continuing outperformance versus competitors as measured independently by the Coffer Peach business tracker^b.

NON-FINANCIAL MEASURES – 30% (OUT OF 100%)

Guest Health (outcome 7.5% out of 15%)

The measurement of Guest Health at Mitchells & Butlers comprises a combination of three elements, Net Promoter Score ('NPS'), a combined social media score and guest complaints. This rounded assessment ensures that Guest Health is measured comprehensively and does not rely on a single measure.

- The method of measuring NPS was amended slightly for FY 2019. In prior years the overall score was calculated as an average of each business's score. This meant a smaller business with fewer guests completing a satisfaction survey carried as much weight in the overall score as a bigger business with more reviews. For FY 2019 this was changed to treat all scores as equally important, i.e. larger businesses with more guest responses have a greater bearing on the overall score.

For FY 2019 the NPS target was set at 61, requiring an improvement of around 1ppt on the FY 2018 score using the revised calculation methodology. The overall score fell short of this demanding target at 60.3.

- The target for the combined social media score (reputation.com) was set at 4.0, an improvement on the FY 2018 outturn of 3.93. A reputation.com score of 4.0 is an important threshold to exceed at a Group level, as guests are more likely to visit businesses with ratings of 4 or 5. Making even a small positive change to social media scores requires big improvements, for example, a 0.1 improvement requires an additional 100,000 review scores of 4 or above.

Excellent progress was made over FY 2019 and the overall score was 4.03, ahead of the target set by the Committee.

- The guest complaints metric measures the proportion of complaints received for every 1,000 meals served. The target for this measure was set at 0.69. The overall outcome of 0.59 represented a very strong performance in this area, reflecting the focus on delivering great guest experiences across all of our brands.

Based on combined scores across the three guest health metrics, the overall outcome is on target and, as a result, a payout equivalent to 7.5% (out of 15%), was awarded to Executive Directors under this element.

Employee engagement (outcome 10% out of 10%)

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

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

The engagement target for FY 2019 was once again based on a combined score across both surveys, with a greater weighting placed on the more comprehensive YourSay survey. The overall outcome was a combined score of 81.3 which was the first time the overall score has been over 80 and followed the previous highest ever score of 78.9 achieved in 2018.

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

Food safety (outcome 5% out of 5%)

Food safety will always be a priority for the business, which is why a measure was introduced that is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for FY 2019 was for 98% of businesses (of which we have 1,671 in the UK) to achieve a score of either 4 or 5 over the year and the actual result was that 98.3% of businesses achieved this level of performance and retained its second place in the league table for large pub and restaurant groups.

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

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

Final bonus outcome

In determining the overall final bonus outcome, the Committee considered the wider performance of the Group as part of its overall quality of earnings assessment and was satisfied that the outcome was consistent with our performance over the year, taking into account the downward adjustment to the Operating Profit element detailed above. Therefore, the total bonus awarded to Executive Directors is 82% of salary resulting in bonus payments of £423,156 and £353,959 to Phil Urban and Tim Jones respectively.

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

PERFORMANCE RESTRICTED SHARE PLAN (OVERALL VESTING 47.5%)

The 2017–19 PRSP performance condition had two elements with equal weighting, annual adjusted Earnings per Share (EPS) growth and relative Total Shareholder Return (TSR). The EPS element did not meet the threshold level of performance required and therefore lapses. TSR performance was 37.8%, above the median of the Group (11.8%) but below the level required for maximum vesting (39.6%) and therefore 95% of this element vests. Overall vesting is therefore 47.5%.

As a result, Phil Urban and Tim Jones will receive 189,234 and 110,776 shares respectively, plus any dividend accrued shares due on the date of vesting^c. The value of these awards, based on the average Mitchells & Butlers share price over the three months to the end of FY 2019, is £634,690 in respect of Phil Urban and £371,540 in respect of Tim Jones.

Over the three year period (inclusive) progress has been made on nominated KPIs^a as follows

- Cumulative LFL sales growth^a is 6.6% over the period, consistently ahead of the market.
- Return on Investment^a has increased from 20% to 27%.
- NPS has increased from 51 to 60, and overall Guest Health has also improved.
- Staff turnover has reduced from 86% to 81%.

Despite a strong performance in the last year (up 9.1%) the overall compound EPS^a growth for the three year period was 2.2% (FY 2016 EPS 34.9p, FY 2019 EPS 37.2p) against a threshold of 4%. During the first two years of the performance period, the business was unable to generate sufficient improvement in sales, or cost efficiencies, to offset the increased headwinds being experienced which cumulatively totalled circa £180m over the performance period.

Subsequently, earnings momentum has been achieved largely from the Ignite initiatives starting to have a tangible impact on performance but over the first two years EPS declined by 2.3% creating a gap to the threshold earnings that a strong third year performance was unable to pull back. In addition to offsetting the above cost headwinds and returning to earnings growth, good progress has also been made in paying down debt, with net debt reducing by £276m from £1,840m to £1,564m at the end of FY 2019.

The Committee is aware of the increased importance applying to Environmental, Social and Governance matters when determining remuneration outcomes, we were therefore pleased to note good progress has also been made across a range of safety measures over the performance period. The number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS') increased from 96.7 to 98.3 at the end of FY 2019. The number of serious accidents involving customers has fallen during the period to a level that equates to 0.6 incidents per million meals served. There have been no serious environmental incidents over the period and during FY 2019 a review of the business's sustainability strategy was undertaken, and a range of external targets was agreed by the Board.

The peer group of companies for the TSR element of the plan was the FTSE All Share Travel and Leisure group. The Committee chose this group because it contains all of Mitchells & Butlers' direct listed hospitality competitors and also those who indirectly compete for the same leisure spend.

TSR performance is measured by reference to performance in the three months prior to the start of the performance period compared to that of performance in the last three months of the performance period, relative to that of the peer group. The improving performance over the past twelve months in particular has underpinned a steady improvement in the share price. Overall the share price has increased from 278p at the start of the performance period to 385p at the end of the period.

The Committee has not applied discretion to the vesting outcome in respect of the PRSP and believes that the outcome achieved fairly reflects the significant improvement in performance. In line with our remuneration policy, Executive Directors are required to hold vested shares for a further period of two years.

Remuneration policy and changes to the UK Corporate Governance Code

Our remuneration policy was approved at the 2018 AGM, with 97% of shareholders voting in favour of the policy. Our policy is next due for approval at the January 2021 AGM, and therefore a review process will be undertaken during FY 2020. The Committee are satisfied that the current policy is working effectively and as intended. No changes to the remuneration policy are proposed for FY 2020. Major shareholders and their representative bodies will continue to be consulted where material changes to the Executive Directors' remuneration policy or its application are being considered. Full details of the current remuneration policy can be found on the mbplc.com website.

The Committee are cognisant of the forthcoming changes to the UK Corporate Governance code and other reporting regulations. Although Mitchells & Butlers will not be required to report against these new regulations until the FY 2020 annual report, preparations are well underway for their introduction and in line with previous years, where appropriate, a proactive 'early adoption' approach has been taken.

For example, over the last three years we have reported on CEO pay ratios and last year set out the impact of a 50% increase in share price on LTIP vesting in the illustrations of remuneration policy. Last year we also introduced a new section to the report which demonstrated how executive remuneration links to overall strategy and the relationship between executive remuneration and that of other employees across the Group. This year we have expanded this section to explain in more detail how our remuneration principles apply through the organisation and how our employee value proposition differentiates Mitchells & Butlers in a very competitive recruitment market.

APPROACH FOR 2020 Executive Directors' salary review and pension contributions

The Committee has carefully considered the salaries of both Executive Directors, and especially that of the CEO given the very strong performance, noting that there have been a number of new appointments at higher salary levels in the sector. The Committee will continue to keep salaries under review but have concluded that with effect from 1 January 2020, Phil Urban's salary will be increased to £535,500 (3%) and Tim Jones' salary will be increased to £448,000 (3%). This is a continuation of our approach to increase salaries in line with the workforce.

The Committee is aware of the increased focus on pension contributions for Executive Directors and the expectation that these will align, over time, with the broader workforce. The current level is 20% of salary less the cost of employers' national insurance (incurred when this is paid as an allowance through payroll as opposed to being paid as a contribution into a pension), which is passed onto the Executive Director. Therefore the pension allowance paid to Executive Directors currently is 17.6% of base salary. The current employee average pension contribution is circa 4%. We note the recent guidance from the Investment Association in relation to pension contributions included in its Principles of Remuneration.

The Chief Executive indicated to the Committee his desire to proactively address this issue and as a first step, for FY 2020, the cash equivalent pension contribution will be reduced by the same cash amount as the increase in base pay set out above (3%). This means that for FY 2020 the cash equivalent contribution for both Executive Directors will reduce to 14.2%, and, therefore, overall fixed pay (salary and pension allowance) remains unchanged versus the prior financial year.

The Committee will keep this matter under review and agree as part of our policy review during 2020, the best approach to aligning Executive Director pension contributions to the broader workforce over time.

Annual bonus

No changes are proposed to the annual bonus structure for FY 2020.

Operating Profit (70%)

- Half of the bonus opportunity will be payable for achieving a demanding Operating Profit target.
- The threshold at which bonus will begin to accrue will again be set at 95% of target and full payment will require very strong performance, well in excess of current market consensus.
- In setting targets the Committee has once again considered the significant cost headwinds which the business faces and which are expected to be circa £55m in FY 2020. The Committee has also taken into account the further benefits expected from the Ignite programme and the underlying performance of the business.
- It remains the view of the Committee that even marginal profit growth represents a strong performance in the circumstances.

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

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

The non-financial elements are only payable if a threshold level of profit is achieved. For FY 2020 this will again be set at 97.5% of the Operating Profit target.

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

2020–22 PRSP

A PRSP award is due to be made in respect of the 2020–22 performance period. The Committee has reviewed the performance condition and has concluded that the performance measures should remain unchanged, with two independent elements, Operating Cash Flow before adjusted items, movements in working capital and additional pension contributions (75% weighting, and hereafter referred to as Operating Cash Flow) and relative TSR (25% weighting).

As set out in last year's report, in setting the target range for 2020–22 the Committee has again considered the cost headwinds that are anticipated to continue through the plan cycle. The Committee also took into account the potential benefits from current and future Ignite initiatives. The Operating Cash Flow target range will have a threshold set at £1,332m and maximum at £1,362m. Operating Profit is the key performance driver of Operating Cash Flow and this target range requires a circa £30m growth from the 2019–21 plan at both threshold and maximum, which the Committee considers to be a stretching target range in the circumstances. On an earnings equivalent basis, the adjusted EPS target range is 4.5% to 7% CAGR, broadly the same as the 2019–21 plan. The application of IFRS 16 will change reported Operating Profit, depreciation and amortisation all of which are component parts of our Operating Cash Flow measure. The exact impact is not yet known, however the Committee will ensure that any restated targets for IFRS 16 are in line with those set out above.

The current TSR comparator group comprises five peer companies (Ei Group, Greene King, Marston's, The Restaurant Group and JD Wetherspoon). Following the purchase of Greene King by CKA and the proposed purchase of Ei Group by Stonegate, there will only be three peer companies in the comparator group, rendering the index-based approach used in prior years unsuitable. The Committee has considered the alternative options and concluded that for the 2020–22 plan the most appropriate approach is to revert to the FTSE All Share Travel and Leisure group. This group is felt to be more relevant than a broad index such as the FTSE 250 as all of the constituents compete for the same leisure spend and with over 30 constituents, will not be impacted by future delistings in the same way as the current peer group has been. 25% will vest for TSR performance equivalent to the median

performance of the comparator group and 100% will vest for performance equivalent to the upper quartile of the group. The TSR element will continue to be subject to a share price underpin and may only be exercised where the Mitchells & Butlers share price has equalled or exceeded the share price at the date the award within six months of the vesting date.

I would like to thank my colleagues for their engagement and commitment and the efforts of those who have supported the Committee in the past year.

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

IMELDA WALSH

Chair of the Remuneration Committee
19 November 2019

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

- The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.
- The Coffey Peach business tracker is the UK's leading sales tracker for pubs and restaurants.
- Dividend accrued shares are due in respect of dividends paid over the performance period, totalling 7.5p/share.

Executive Remuneration at a glance

This section briefly highlights performance and remuneration outcomes for FY 2019, and our approach for FY 2020. More detail can be found in the Annual Report on remuneration on pages 76 to 79. Full details of the remuneration policy can be found on the mbplc.com website.

FY 2019 SINGLE FIGURE REMUNERATION FOR EXECUTIVE DIRECTORS

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension-related benefits £000	Long-term incentives £000	Other £000	Total remuneration £000
Phil Urban	516	16	423	91	635	3	1,684
Tim Jones	432	16	354	76	372	3	1,253
Total	948	32	777	167	1,007	6	2,937

The single figure table sets out payments made to Executive Directors in respect of FY 2019, including base salary, annual bonus earnings, long-term incentives, payments made in lieu of pension contributions and taxable benefits such as company car and healthcare cover. More detail is provided in relation to the FY 2019 annual bonus scheme and long-term incentive scheme outcomes below and a full version of the single figure table for all Directors can be found on page 87.

FY 2019 ANNUAL BONUS

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

	Target	Actual	Bonus outcome (% of salary)
Operating Profit	307	313.3*	59.5
Guest Health			
NPS	61	60.3	
Social Media	4.03	4.03	7.5
Complaints	0.69	0.59	
Employee Engagement	79.5	81.3	10
Safety	98.0	98.3	5

* Reported Adjusted Operating Profit was £317.0m, bonus was based on £313.3m.

Bonus payments equivalent to 82% of base salary will be made to Executive Directors (£423,156 in respect of Phil Urban and £353,959 in respect of Tim Jones). Half of the bonus award will be deferred into shares which will be released in two equal amounts after 12 and 24 months.

FY 2019 PRSP VESTING

The PRSP awards granted during FY 2017 had a performance period ending on 28 September 2019. 50% of the award was based on relative TSR performance and 50% on EPS growth.

	Target range	Actual	% vesting
Total Shareholder Return relative to peer group	Median to upper quartile	37.8%	95
Compound annual adjusted EPS growth	4% to 8% CAGR	2.2% p.a.	Nil

TSR performance was 37.8% over the period which resulted in 95% vesting against this element and EPS growth of 2.2% p.a. over the period was below the threshold and this element of the award did not vest.

APPROACH FOR FY 2020

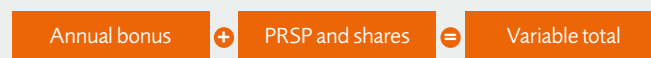
COMPONENTS OF REMUNERATION

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

Fixed:



Variable:



FIXED COMPONENTS

Salary

On 1 January 2020 Phil Urban's salary will increase by 3% to £535,500 and Tim Jones' will also increase by 3% to £448,000.

Phil Urban Chief Executive **£535,000** +3.0%

Tim Jones Chief Financial Officer **£448,000** +3.0%

Pension

The cash equivalent pension contribution for both Executive Directors will be reduced by an amount equal to the increase in base salary. As a result the cash equivalent pension contribution will be 14.2% of base salary

VARIABLE COMPONENTS

Annual bonus

No change to potential quantum – 100% of salary.

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

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

PRSP

Awards levels (unchanged)	Phil Urban Chief Executive	200% salary
	Tim Jones Chief Financial Officer	140% salary
	Threshold	Maximum
	← 25% of element vests	→ 100% of this element vests
Measures and targets	£1,332m	Operating Cash Flow
	Median	Total Shareholder Return
		Upper quartile

The measures for the 2020–22 cycle are unchanged, with 75% of the award based on Operating Cash Flow and 25% on relative TSR.

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

Share ownership guidelines

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

Phil Urban Chief Executive **200% salary**

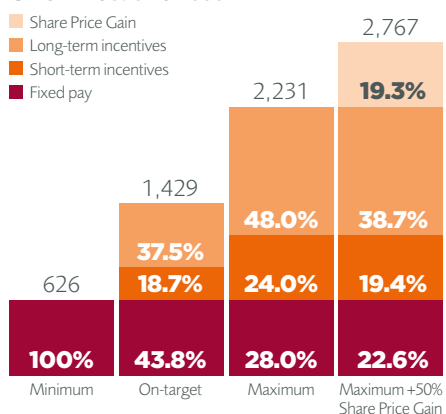
All other Executive Directors **150% salary**

Additional remuneration information

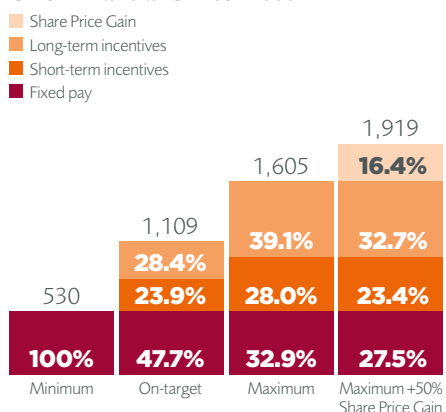
ILLUSTRATIONS OF THE APPLICATION OF REMUNERATION POLICY

A key principle of the Group's remuneration policy is that variable short- and long-term reward should be linked to the financial performance of the Group. The charts below show the composition of the remuneration of the Chief Executive and Chief Financial Officer at minimum, on-target and maximum levels of performance in FY 2020. The charts also show the impact of a 50% increase in share price on the LTIP outcome.

Chief Executive £000



Chief Financial Officer £000



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

MINIMUM

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2020. Benefits are based on actual FY 2019 figures and include company car, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable from 1 January 2020.

ON-TARGET

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

- 50% of maximum (50% of base salary for the Chief Executive and Chief Financial Officer) is payable under the short-term incentive plan; and

- 50% of the award (100% of base salary for the Chief Executive and 70% of base salary for the Chief Financial Officer) is payable under the long-term incentive plan.

MAXIMUM

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

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

SHARE PRICE GAIN

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

PAY RATIOS AND GENDER PAY

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

Financial year	CEO pay ratio		
	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	120:1	112:1	106:1

More detail in relation to the pay ratio calculation can be found on page 94.

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

	2019 %	2018 %	2017 %
Mean Pay Gap	6.1	7.4	8.1
Median Pay Gap	3.2	4.7	5.2
Mean Bonus Gap	33.5	38.5	27.6
Median Bonus Gap	15.4	29.2	20.6

At a Group level the pay gap has reduced overall on both measures and the median pay gap compares very favourably to the national average of 17.9%. A number of initiatives have underpinned the improvement of our gender pay gap, including the establishment of a diversity and inclusion steering group, a review of our family friendly policies and the implementation of a new talent management process. Full details can be found in our gender pay report on the Company website.

Remuneration context

This section of the report sets out the broader context for remuneration and covers a number of areas:

- explaining how executive reward links to Mitchells & Butlers' three strategic priorities;
- the link between executive pay and remuneration across the Group;
- engagement with employees on pay and how the Remuneration Committee is kept updated on wider workforce pay, incentives policy and alignment to our values; and
- explaining the factors that employees value in addition to pay as part of working for Mitchells & Butlers – our 'People Promise'.

ALIGNMENT OF EXECUTIVE PAY TO STRATEGY

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

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

MITCHELLS & BUTLERS' REMUNERATION PRINCIPLES
Shareholder alignment

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

Competitive

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

Performance-linked

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

Straightforward

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

These same principles apply throughout the organisation and are adapted as appropriate for specific employee groups. A good example of this is how these principles apply to our General Managers. A competitive package is important for this group as they are fundamental to the day-to-day success of the business and the current recruitment market is challenging with a shortage of high-calibre managers. As with Executives a high proportion of potential reward for this group is based on performance and the overall structure is straightforward to understand. There is a lesser weighting on equity, but all General Managers can participate in any of the all employee share schemes, subject to qualifying service, therefore building their own equity in the business.

Equally the above principles are applied to our hourly paid team members. The recruitment market is becoming ever more challenging and this means that competitive pay is important to attract high-calibre team members, especially in London and the South East and for kitchen teams across the UK. Although base pay for our hourly paid team members is not linked to performance there is a strong link to performance where there are opportunities to earn tips and service charge (100% of which are retained by the team with no administration charge), and more broadly, the good performance of the Company allows for more investment in pay. Pay structures for this group are straightforward and, as with other employees, hourly paid team members can participate in any of the all-employee share schemes, subject to qualifying service.

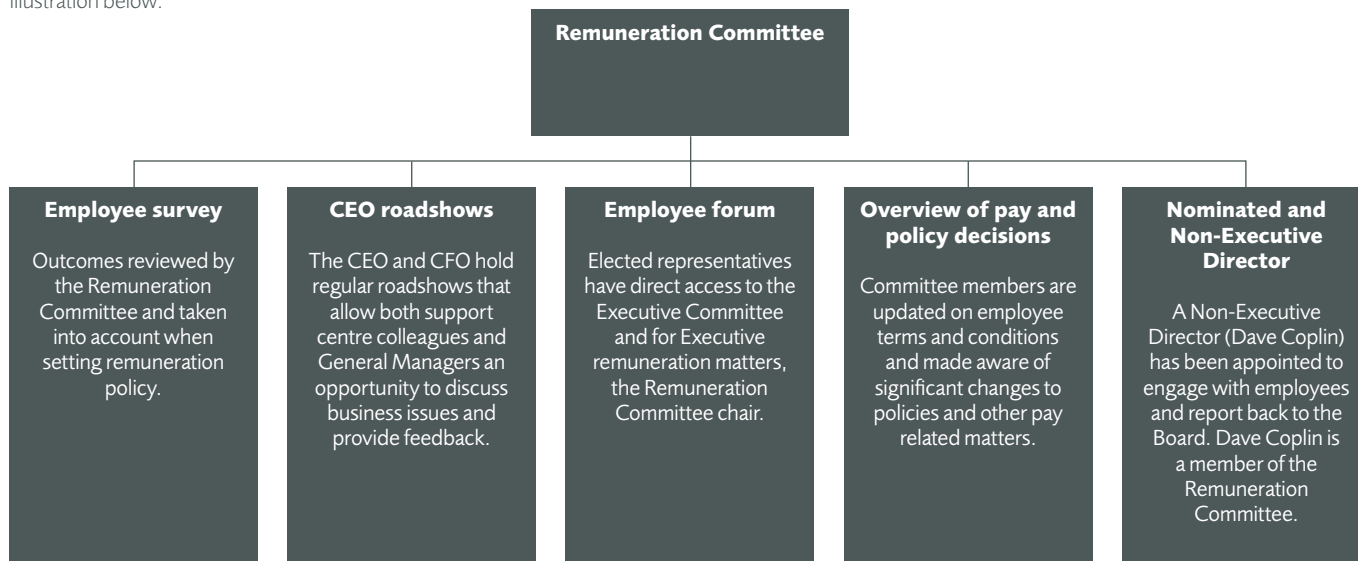
REMUNERATION BELOW EXECUTIVE DIRECTOR LEVEL

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

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

Workforce engagement

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



The Committee is regularly updated throughout the year on pay and conditions applying to Group employees. Where significant changes are proposed to employment conditions and policies elsewhere in the Group, these are highlighted for the attention of the Committee at an early stage. Over the course of FY 2019 these updates included a comprehensive overview of the terms and conditions applicable to the three main employee groups across the Company, hourly paid retail team members, salaried retail management and retail support centre employees.

The Committee takes into account the base pay review budget applicable to other employees when considering the pay of Executive Directors. The Committee considers a broad range of reference points when determining policy and pay levels; these include external market benchmarks as well as internal reference points. Any such reference points are set in an appropriate context and are not considered in isolation.

As mentioned above, all employees are invited to take part in our annual YourSay employee engagement survey and a mid-year 'Pulse' survey. These provide all employees with an opportunity to give anonymous feedback on a wide range of topics of interest or concern to them. The Committee reviews the results of both the main Your Say survey and the Pulse survey and any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration policy and its implementation.

In addition, each year an employee forum is held, which gives the opportunity for employees to ask questions of senior management, via elected representatives. From FY 2020 this forum will be held on a bi-annual basis and will also be attended by the nominated Non-Executive Director. More details on how the Company intends to utilise both the employee forum and nominated Non-Executive Director in engaging with employees are set out on page 60.

THE MITCHELLS & BUTLERS 'PEOPLE PROMISE'



Clearly pay is a very important element but other factors also play an important part of the overall value proposition, which is known internally as our 'People Promise'. The diagram above explains in more detail our People Promise and how Mitchells & Butlers is able to differentiate our employment proposition in a challenging recruitment market.

Our people value opportunities for progression, challenge within their role, fair rewards and a safe working environment. In more recent times, given the number of business closures in the hospitality industry, the job security that working for Mitchells & Butlers brings has also become a more important factor.

Our research has also shown that, unlike some industries and employers, Mitchells & Butlers offers a number of important differentiators which our employees' value:

- Flexibility and convenience: Mitchells & Butlers has always promoted a flexible approach to working from the frontline through to our support centre. This flexibility has been further enhanced recently with the roll out of an employee app that allows frontline teams to view their rota and swap shifts with colleagues. Further improving flexibility for all employee groups has been identified as a key opportunity for the future.
- More job satisfaction: As part of our research we learnt that working for Mitchells & Butlers gave employees a strong sense of family and that employees put a high value on the day-to-day variety of work. This comes through very strongly in our survey results with a score of 81.7 for job satisfaction and lifestyle.
- A great atmosphere: Undoubtedly working in hospitality, especially at the frontline, is hard work. However, we also know that it can be great fun. Our aim at Mitchells & Butlers is to make the working environment as fun and friendly as possible whilst ensuring that guests receive great service. Good examples of this include our 'legends' recognition programme which is a peer to peer opportunity for teams to recognise each other and the competitions that many of our brands run for our kitchen teams that provide an opportunity to design dishes for our menus.

Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 28 September 2019 and sets out how we intend to implement our remuneration policy for the 2020 financial year. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the AGM on 21 January 2020.

COMMITTEE TERMS OF REFERENCE

The Committee's terms of reference were reviewed and updated in 2019 to take account of the revised Corporate Governance Code.

The Committee's main responsibilities include:

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

COMMITTEE MEMBERSHIP AND OPERATION

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

Name	Date of appointment to the Committee
Imelda Walsh (Chair)*	11 July 2013
Colin Rutherford*	11 July 2013
Bob Ivell	11 July 2013
Eddie Irwin	11 July 2013
Dave Coplin*	29 Feb 2016
Josh Levy	20 July 2017
Jane Moriarty*	27 February 2019
Susan Murray*	8 March 2019

* Independent Non-Executive Directors.

COMMITTEE ACTIVITY DURING THE YEAR

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

October 2018	<ul style="list-style-type: none"> • Annual bonus targets • Long-term incentive plan targets • Chief Executive pay review • Executive Committee pay review • Appointment of remuneration advisers
November 2018	<ul style="list-style-type: none"> • Long-term incentive plan vesting update • 2018 bonus approval • Corporate Governance Code update • Committee terms of reference • Gender Pay
April 2019	<ul style="list-style-type: none"> • Corporate Governance Code update • Review of workforce terms and conditions
September 2019	<ul style="list-style-type: none"> • 2019 bonus scheme • Long-term incentive plan update • Governance update • Gender Pay and employee engagement • Executive Director pay

ADVICE TO THE COMMITTEE

The Committee received advice from PwC LLP during the year. PwC were appointed following a competitive tender process during 2018. PwC are signatories to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. Total fees payable in respect of remuneration advice to the Committee in the reporting year totalled £45,900¹. As set out in the Audit Committee report, the external audit has been put out to tender. The Remuneration Committee has been advised that, should PwC be appointed as auditors, it will be necessary to appoint new remuneration advisers as PwC would withdraw its Remuneration Committee-related services prior to the commencement of its role as auditors.

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

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

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

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

STATEMENT OF VOTING AT AGM

Our Directors' Remuneration Policy was approved at the 2018 AGM on 23 January 2018. At the last AGM (held on 22 January 2019), the resolution on the Annual report on remuneration was subject to an advisory vote. Set out in the table below are details of the relevant shareholder votes:

	Votes cast	Votes for ^a	%	Votes against	%	Votes withheld ^b
Annual report on remuneration	369,411,392	364,302,757	98.62	5,108,635	1.38	1,811,835

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

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

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

PAY OUTCOMES

The tables and related disclosures set out on pages 87 to 92 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

DIRECTORS' REMUNERATION

The tables below set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on pages 88 and 89.

EXECUTIVE DIRECTORS

	Basic salaries £000		Taxable benefits ^a £000		Short-term incentives £000		Pension related benefits ^b £000		Long-term incentives ^c £000		Other ^d £000		Total remuneration £000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Phil Urban ^e	516	509	16	16	423	200	91	89	635	–	3	5	1,684	819
Tim Jones ^e	432	425	16	16	354	167	76	75	372	–	3	5	1,253	688
Sub-total Executive Directors	948	934	32	32	777	367	167	164	1,007	–	6	10	2,937	1,507

NON-EXECUTIVE DIRECTORS

	Fees £000		Taxable benefits ^f £000		Short-term incentives £000		Pension related benefits £000		Long-term incentives £000		Other £000		Total remuneration £000	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Bob Ivell	284	284	2	3	–	–	–	–	–	–	–	–	286	287
Ron Robson	53	52	1	0	–	–	–	–	–	–	–	–	54	52
Stewart Gilliland ^g	16	62	0.5	1	–	–	–	–	–	–	–	–	16.5	63
Eddie Irwin	53	52	1	0	–	–	–	–	–	–	–	–	54	52
Colin Rutherford	65	62	2	2.5	–	–	–	–	–	–	–	–	67	64.5
Imelda Walsh	65	62	1	0	–	–	–	–	–	–	–	–	66	62
Josh Levy	53	52	1	0	–	–	–	–	–	–	–	–	54	52
Dave Coplin	57	52	0.5	1	–	–	–	–	–	–	–	–	57.5	53
Keith Browne	53	52	1	0	–	–	–	–	–	–	–	–	54	52
Susan Murray ^h	37	–	0	–	–	–	–	–	–	–	–	–	37	–
Jane Moriarty ^h	30	–	0	–	–	–	–	–	–	–	–	–	30	–
Sub-total Non-Executive Directors	766	730	10	7.5	–	–	–	–	–	–	–	–	776	737.5
Total Executive Directors and Non-Executive Directors	1,714	1,664	42	39.5	777	367	167	164	1,007	–	6	10	3,713	2,244.5

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

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

c. The value of the PRSP vesting is based on the three month average share price to the year end (327.9p). The value attributable to share price improvement is £138,590 for Phil Urban and £81,129 for Tim Jones.

d. Includes the award of free shares awarded under the SIP.

e. The base salary for Phil Urban was £520,000 and for Tim Jones £435,000. The figures set out are the actual salaries received over the financial year, which had 364 days.

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

g. Stewart Gilliland stepped down from the Board on 31 December 2018.

h. Jane Moriarty and Susan Murray were appointed to the Board on 27 February 2019 and 8 March 2019 respectively.

ANNUAL PERFORMANCE BONUS AND STDIP

The annual bonus and STDIP operate as set out in our remuneration policy which is available on the Company's website. Details of the measures and targets applying to the FY 2019 plan are set out below:

	Threshold – 95% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)	Outcome (% of salary payable)
Adjusted Operating Profit (70%)	£291.7m (0%)	£307m (35%)	£316.2m (70%)	£313.3m* (59.5%)

* Reported Operating Profit was £317.0m, bonus was based on £313.3m.

	Target	Calculation of outcome (% of salary payable)	Performance (Score)	Outcome (% of salary payable)
Guest Health (15%)				
Net Promoter Score ('NPS')	61	Each element is scored 1 if better than target, 0 if on target, and -1 if below target.	60.3 (-1)	
Social Media Score	4.0		4.03 (+1)	
Complaints Ratio	0.69	<ul style="list-style-type: none"> If the sum of these scores is +3 then maximum bonus is paid. (15%) If the sum of these scores is +1 or +2 then an on-target payment would be made. (7.5%) If the sum of these scores is 0 then threshold bonus is paid. (3.75%) 	0.59 (+1)	7.5%

	Threshold (% of salary payable)	Target (% of salary payable)	Maximum (% of salary payable)	Outcome (% of salary payable)
Employee Engagement (10%)*	78.5 (2.5%)	79.5 (5%)	80.5 (10%)	81.5 (10%)
Food Safety (5%)		Target (% of salary payable) 98.0% (5%)		Outcome (% of salary payable) 98.3% (5%)

* Payout is on a straight-line basis between points.

**FINANCIAL MEASURES – MAXIMUM 70% (OUT OF 100%)
Operating Profit (outcome 59.5% out of 70%)**

In setting the Operating Profit target range the Committee considered a number of factors, including, once again, the significant cost headwinds the business continues to face. For the last financial year these ran at circa £64m, the third year in which we have faced this level of cost inflation. As before, these costs were attributable to labour and energy along with further food and drink inflation. The Committee also took into account the range of initiatives put in place as part of the Ignite programme and to what extent these would offset the cost headwinds.

More broadly the Committee considered the general and sector outlook, especially given the recent increase in business failures and CVAs across the industry. In this context, delivering any level of profit growth was considered by the Committee to be a very strong performance. Target performance was therefore set slightly above the 2018 outturn (£303m) and consensus, which the Committee felt balanced the need for fair but demanding targets. The level required for a maximum award required a significant level of performance ahead of both the Company's business plan and market expectations.

Sales in the year were £2,237m, an increase of £85m on 2018 and a like-for-like sales improvement of 3.5% which continues to be above the market overall (as measured by the Coffer Peach business tracker^b) and represents now almost three years of consistent market outperformance.

The Operating Profit outcome of £317m was just over 103% of target and in excess of the performance required for a maximum payout for this element of the bonus scheme. In line with established practice the Committee undertook a thorough quality of earnings assessment, to understand in detail the drivers of performance. Whilst the vast majority of the growth has been driven through strong management action and implementation of the Ignite initiatives, a modest proportion of the growth seen in FY 2019 was achieved as a result of the utilisation of onerous lease provisions that were charged in part through a large separately disclosed item in 2017. With this in mind the Committee has scaled back the bonus outcome by removing the benefit of these separately disclosed onerous leases provisions in the income statement.

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

This results in an Operating Profit for bonus purposes of £313.3m (102% of target) and a payout equivalent to 59.5% of salary (out of 70%) for Executive Directors. The Committee felt that this approach to moderating the bonus outcome was fair and the resulting payout reflects the very strong performance and improvement on the prior year, with the Company returning to Operating Profit growth despite the unprecedented cost challenges, and the continuing outperformance versus competitors as measured independently.

**NON-FINANCIAL MEASURES – MAXIMUM 30% (OUT OF 100%)
Guest Health (outcome 7.5% out of 15%)**

The measurement of Guest Health at Mitchells & Butlers comprises a combination of three elements: Net Promoter Score ('NPS'); a combined social media score; and guest complaints. This rounded assessment ensures that Guest Health is measured comprehensively and does not rely on a single measure.

- The method of measuring NPS was amended slightly for FY 2019. In prior years the overall score was calculated as an average of each business's score. This means a smaller business, with fewer guests completing a satisfaction survey, carried as much weight in the overall score as a bigger business with more reviews. For FY 2019 this was changed to treat all scores as equally important, i.e. larger businesses with more guest responses have a greater bearing on the overall score.

For FY 2019 the NPS target was set at 61, requiring an improvement of around 1ppt on the FY 2018 score using the revised calculation methodology. The overall score fell short of this demanding target at 60.3.

- The target for the combined social media score (reputation.com) was set at 4.0, an improvement on the FY 2018 outturn of 3.93. A Reputation.com score of 4.0 is an important threshold to exceed at a group level, as guests are more likely to visit businesses with ratings of 4 or 5. Making even a small positive change to social media scores requires big improvements, for example a 0.1 improvement requires an additional 100,000 review scores of 4 or above.

Excellent progress was made over FY 2019 and the overall score was 4.03, ahead of the target set by the Committee.

- The guest complaints metric measures the proportion of complaints received for every 1,000 meals served. The target for this measure was set at 0.69. The overall outcome of 0.59 represented a very strong performance in this area reflecting the focus on delivering great guest experiences across all of our brands.

Based on combined scores across the three Guest Health metrics, the overall outcome is on target and as a result a payout equivalent to 7.5% (out of 15%) was awarded to Executive Directors under this element.

Employee engagement (outcome 10% out of 10%)

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

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

The engagement target for FY 2019 was once again based on a combined score across both surveys, with a greater weighting placed on the more comprehensive YourSay survey. The overall outcome was a combined score of 81.3 which was the first time the overall score had been over 80 and followed the previous highest ever score of 78.9 achieved in FY 2018.

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

Food safety (outcome 5% out of 5%)

Food safety will always be a priority for the business, which is why a measure was introduced that is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for FY 2019 was for 98% of businesses to achieve a score of either 4 or 5 over the year and the actual result was that 98.3% of our businesses achieved this level of performance and retained its second place in the league table for large pub and restaurant groups.

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

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

Final bonus outcome

In determining the overall final bonus outcome, the Committee considered the wider performance of the Group as part of an overall quality of earnings assessment and was satisfied that the outcome was consistent with our performance over the year, taking into account the downward adjustment to the Operating Profit element detailed above. Therefore, the total bonus awarded to Executive Directors is 82% of salary resulting in bonus payments of £423,156 and £353,959 to Phil Urban and Tim Jones respectively.

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

LONG-TERM INCENTIVES VESTING DURING THE YEAR

During FY 2017 share awards were made to Phil Urban and Tim Jones, under the terms of the PRSP to the value of 200% and 140% of their respective base salaries. The performance condition had two independent elements: compound annual adjusted EPS growth and TSR performance against a group of sector peers, measured over the three year performance period ending 28 September 2019.

Table 1 below summarises performance against each element of the performance conditions.

The EPS element did not meet the threshold level of performance required and, therefore, lapses. TSR performance was 37.8%, above the median of the group (11.8%) but below the level required for maximum vesting (39.6%) and, therefore, 95% of this element vests. Overall vesting is therefore 47.5%.

As a result, Phil Urban and Tim Jones will receive 189,234 and 110,776 shares respectively, plus any dividend¹ accrued shares due on the date of vesting. The value of these awards, based on the average Mitchells & Butlers share price over the three months to the end of the 2019 financial year, is £634,690 in respect of Phil Urban and £371,540 in respect of Tim Jones.

Over the three year period (inclusive), progress has been made on nominated KPIs as follows:

- Cumulative LFL sales^a growth is 6.6% over the period, consistently ahead of the market;
- Return on investment has increased from 20% to 27%;
- NPS has increased from 51 to 60, and overall Guest Health has also improved; and
- Staff turnover has reduced from 86% to 81%.

Despite a strong performance in the last year (up 9.1%), the overall compound EPS growth for the three year period was 2.2% (FY 2016 EPS 34.9p, FY 2019 EPS 37.2p) against a threshold of 4%. During the first two years of the performance period, the business was unable to generate sufficient improvement in sales or cost efficiencies to offset the increased headwinds being experienced which cumulatively totalled circa £180m over the performance period.

Table 1

2017-19 PRSP – performance conditions

	Threshold (25%) to Maximum (100%) range**	Actual	% vesting
Compound annual adjusted Earnings Per Share ('EPS') growth (50% weighting)	4% to 8% CAGR	2.2% p.a.	Nil
Total Shareholder Return relative to peer group* (50% weighting)	Median to upper quartile	37.8%	95.1%

* Comprising the constituents of the FTSE All Share Travel and Leisure index.

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

1. Dividend accrued shares are due in respect of dividends paid over the performance period, totalling 7.5p/share.

Subsequently, earnings momentum has been achieved largely from the Ignite initiatives starting to have a tangible impact on performance, but over the first two years EPS declined by 2.3% creating a gap to the threshold earnings that a strong third year performance was unable to pull back.

In addition to offsetting the above cost headwinds and returning to earnings growth, good progress has also been made in paying down debt, with net debt reducing by £276m from £1,840m to £1,564m at the end of FY 2019.

The Committee is aware of the increased importance applying to Environmental, Social and Governance matters when determining remuneration outcomes; we were therefore pleased to note good progress has also been made across a range of safety measures over the performance period. The number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS') increased from 96.7% to 98.3% at the end of FY 2019. The number of serious accidents involving customers has fallen during the period to a level that equates to 0.6 incidents per million meals served. There have been no serious environmental incidents over the period and during FY 2019 a review of the business's sustainability strategy was undertaken, and a range of external targets was agreed by the Board, more details of which can be found on page 18.

The peer group of companies for the TSR element of the plan was the FTSE All Share Travel and Leisure group. The Committee chose this group because it contains all of Mitchells & Butlers direct listed hospitality competitors and also those who indirectly compete for the same leisure spend.

TSR performance is measured by reference to performance in the three months prior to the start of the performance period compared to that of performance in the last three months of the performance period, relative to that of the peer group.

The improving performance over the past twelve months in particular has underpinned a steady improvement in the share price. Overall the share price has increased from 278p at the start of the performance period to 385p at the end of the period, and the share price at the time of writing has increased further. The graph below shows the Company's TSR performance over the period.

The Committee has not applied discretion to the vesting outcome in respect of the PRSP and believes that the outcome achieved fairly reflects the significant improvement in performance. In line with our Remuneration Policy, Executive Directors are required to hold vested shares for a further period of two years.

LONG-TERM INCENTIVE AWARDS MADE DURING FY 2019

An award was made to the Chief Executive and the Chief Financial Officer in November 2018 in accordance with the rules of the PRSP and within the approved Remuneration Policy.

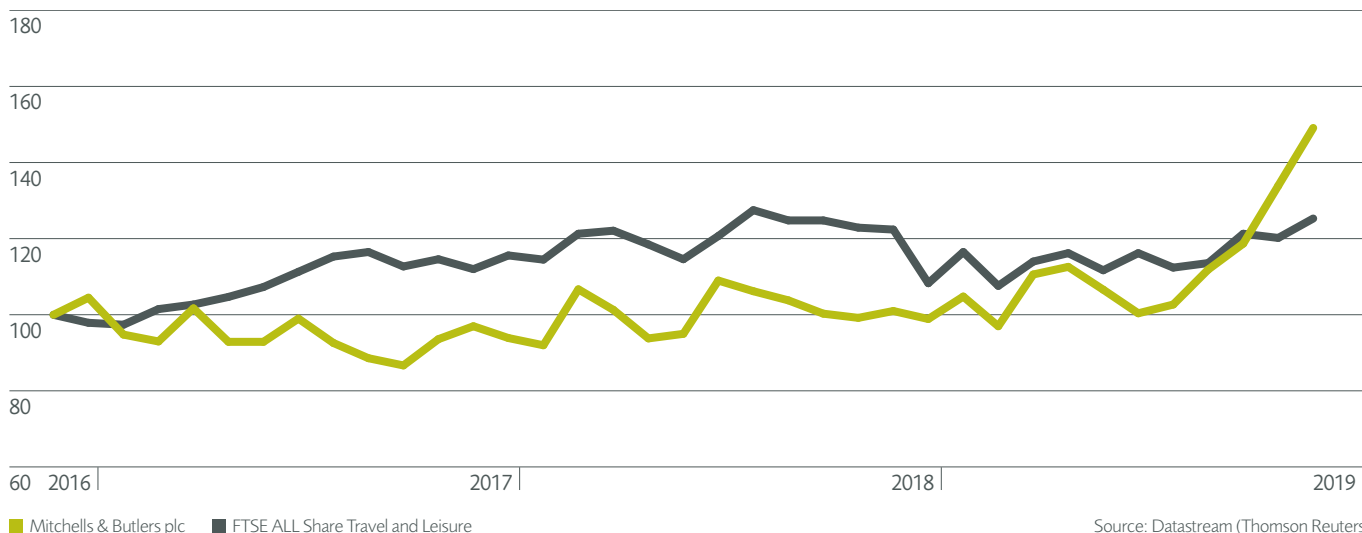
The performance measures were unchanged, with two independent elements, Operating Cash Flow (75% weighting) and relative TSR (25% weighting).

In setting the target range for 2019–21, the Committee considered the ongoing cost headwinds that the business continues to face, the upward pressure on food and drink inflation, along with the potential benefits flowing from the Ignite initiatives over the coming years.

On an earnings equivalent basis, the adjusted EPS^a target range will be between 4.5% and 7% CAGR.

The TSR comparator group for the 2019–21 award comprises five peer companies (Ei Group, Greene King, Marston's, The Restaurant Group and JD Wetherspoon).

TSR performance over the period



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

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

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

The Operating Cash Flow and TSR conditions are measured over three years from the start of the financial year in which they are granted and any shares that vest are subject to a further two year holding period. Full details of awards made to Executive Directors under the PRSP are set out below:

	Nil Cost Options awarded during the year to 28/09/19	Basis of award (% of basic annual salary)	Award date	Market price per share used to determine the award (p)*	Actual/planned vesting date	Latest lapse date	Face value** £
Executive Directors							
Phil Urban	375,000	200	28/11/18	272	Nov 2021	Nov 2023	1,021,500
Tim Jones	219,521	140	28/11/18	272	Nov 2021	Nov 2023	597,975
Total	594,521						1,619,475

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

** Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (272.4p).

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

ALL-EMPLOYEE SIP

The table below shows the awards made to Directors under the free share element of the SIP during the year.

Director	Shares awarded during the year to 28/09/19	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period
Phil Urban	1,112	21/06/19	281.5	21/06/22	n/a	n/a
Tim Jones	943	21/06/19	281.5	21/06/22	n/a	n/a
Total	2,055					

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 87.

PRSP, STDIP AND OTHER SHARE AWARDS

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

Name of Director	Scheme	Number of shares at 29 September 2018	Granted during the period	Date of grant	Lapsed during the period	Exercised during the period	Number of shares at 28 September 2019	Date from which exercisable	Expiry date
Phil Urban	PRSP 2016–18 ^{ab}	381,022	–	June 2016	381,022	–	–	Nov 2018	Nov 2020
	PRSP 2017–19 ^a	397,970	–	Nov 2016	–	–	397,970	Nov 2019	Nov 2021
	PRSP 2018–20 ^c	393,517	–	July 2018	–	–	393,517	Nov 2020	Nov 2022
	PRSP 2019–21 ^c	–	375,000	Nov 2018	–	–	375,000	Nov 2021	Nov 2023
	STDIP 2017	28,639	–	Dec 2017	–	14,319	14,320	Dec 2018 ^d	Dec 2019
	STDIP 2018	–	36,988	Dec 2018	–	–	36,988	Dec 2019 ^d	Dec 2020
	SAYE 2015	4,972	–	June 2015	4,972	–	–	Oct 2018	Mar 2019
	SAYE 2018	7,317	–	June 2018	–	–	7,317	Oct 2021	Mar 2022
	Total	1,213,437	411,988			385,994	14,319	1,225,112	
Tim Jones	PRSP 2016–18 ^{ab}	223,048	–	Jun 2016	223,048	–	–	Nov 2018	Nov 2020
	PRSP 2017–19 ^a	232,968	–	Nov 2016	–	–	232,968	Nov 2019	Nov 2021
	PRSP 2018–20 ^c	230,361	–	July 2018	–	–	230,361	Nov 2020	Nov 2022
	PRSP 2019–21 ^c	–	219,521	Nov 2018	–	–	219,521	Nov 2021	Nov 2023
	STDIP 2017	23,950	–	Dec 2017	–	11,975	11,975	Dec 2018 ^d	Dec 2019
	STDIP 2018	–	30,932	Dec 2018	–	–	30,932	Dec 2019 ^d	Dec 2020
	SAYE 2015	2,486	–	June 2015	2,486	–	–	Oct 2018	Mar 2019
	SAYE 2018	7,317	–	June 2018	–	–	7,317	Oct 2021	Mar 2022
	Total	720,130	250,453			225,534	11,975	733,074	

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

b. The 2016–18 plan lapsed in November 2018.

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

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

DIRECTORS' INTERESTS

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

This requires the Chief Executive to accumulate Mitchells & Butlers shares to the value of a minimum of 200% of salary (150% of salary for other Executive Directors) through the retention of shares arising from share schemes (on a net of tax basis) or through market purchases. Phil Urban's shareholding at 28 September 2019 was 76.6% of his basic annual salary (2018 48.7%) and Tim Jones' shareholding was 78.3% of his basic annual salary (2018 57.6%) and as a result the shareholding guideline is not met.

If deferred annual bonus shares that are due to be released in November 2019 and shares vesting from the 2017/19 PRSP, also due to vest in November 2019, are taken into account on a net of tax basis, the Chief Executive's shareholding would be 151% of base salary and the Chief Financial Officer's 134% of base salary.

Executive Directors' shareholdings are calculated based on the average share price over the final three months of the financial year; for FY 2019 this was 327.9p.

The interests of the Directors in the ordinary shares of the Company as at 28 September 2019 and 29 September 2018 are as set out below:

	Wholly owned shares without performance conditions ^a		Shares with performance conditions		Unvested options/awards without performance conditions ^b		Unvested options/awards with performance conditions ^c		Vested but unexercised options		Total shares/options	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive Directors												
Phil Urban	121,455	97,024	–	–	58,625	40,928	1,166,487	1,172,509	–	–	1,346,567	1,310,461
Tim Jones	103,852	95,944	–	–	50,224	33,753	682,850	686,377	–	–	836,926	816,074
Non-Executive Directors												
Bob Ivell	12,006	12,006	–	–	–	–	–	–	–	–	12,006	12,006
Ron Robson	–	–	–	–	–	–	–	–	–	–	–	–
Eddie Irwin	31,560	31,560	–	–	–	–	–	–	–	–	31,560	31,560
Colin Rutherford	–	–	–	–	–	–	–	–	–	–	–	–
Imelda Walsh	7,500	7,500	–	–	–	–	–	–	–	–	7,500	7,500
Dave Coplin	2,042	2,042	–	–	–	–	–	–	–	–	2,042	2,042
Josh Levy	–	–	–	–	–	–	–	–	–	–	–	–
Keith Browne	–	–	–	–	–	–	–	–	–	–	–	–
Susan Murray	–	–	–	–	–	–	–	–	–	–	–	–
Jane Moriarty	–	–	–	–	–	–	–	–	–	–	–	–
Total	278,415	246,076	–	–	108,849	74,681	1,849,337	1,858,886	–	–	2,236,601	2,179,643

a. Includes Free Shares and Partnership Shares granted under the SIP.

b. Options granted under the Sharesave as detailed in the table on page 91 and deferred bonus awards granted under the STDIP.

c. Options granted under the PRSP as detailed in the table on page 91.

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

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

Phil Urban and Tim Jones each acquired 62 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial year and 19 November 2019. There have been no changes in the holdings of any other Directors since the end of the financial year.

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

The market price per share on 28 September 2019 was 285p and the range during the year to 28 September 2019 was 238p to 385p per share.

The Executive Directors as a group beneficially own 0.05% of the Company's shares.

FEES FOR EXTERNAL DIRECTORSHIPS

No external non-executive directorships were held by either Executive Director during the year to 28 September 2019.

PAYMENT FOR LOSS OF OFFICE

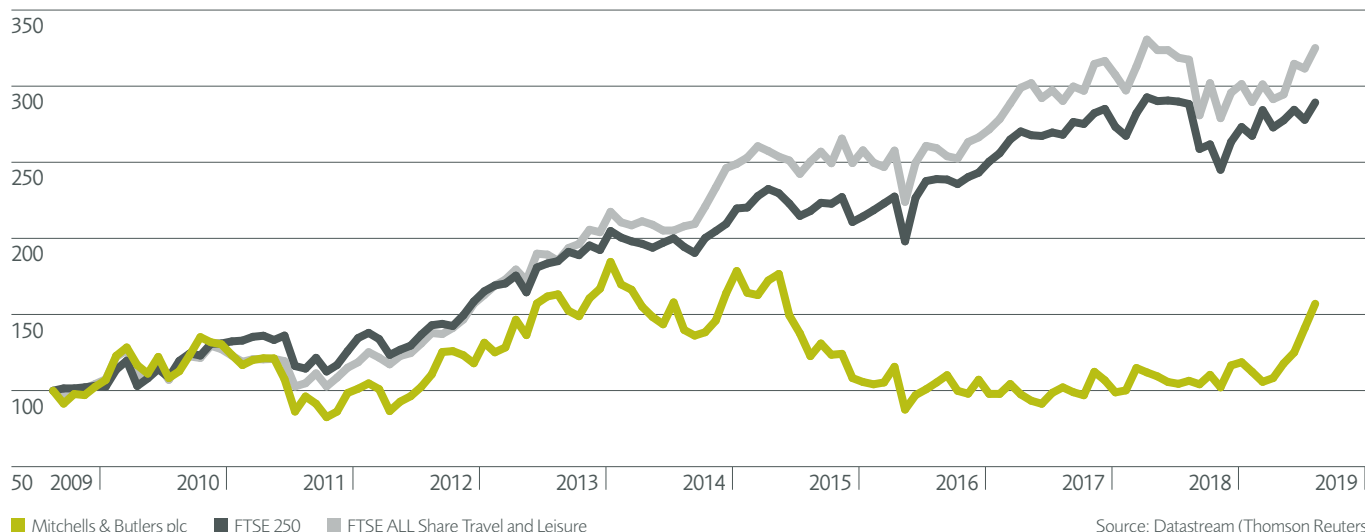
No payments for loss of office were made in the year ended 28 September 2019.

PAYMENTS TO PAST DIRECTORS

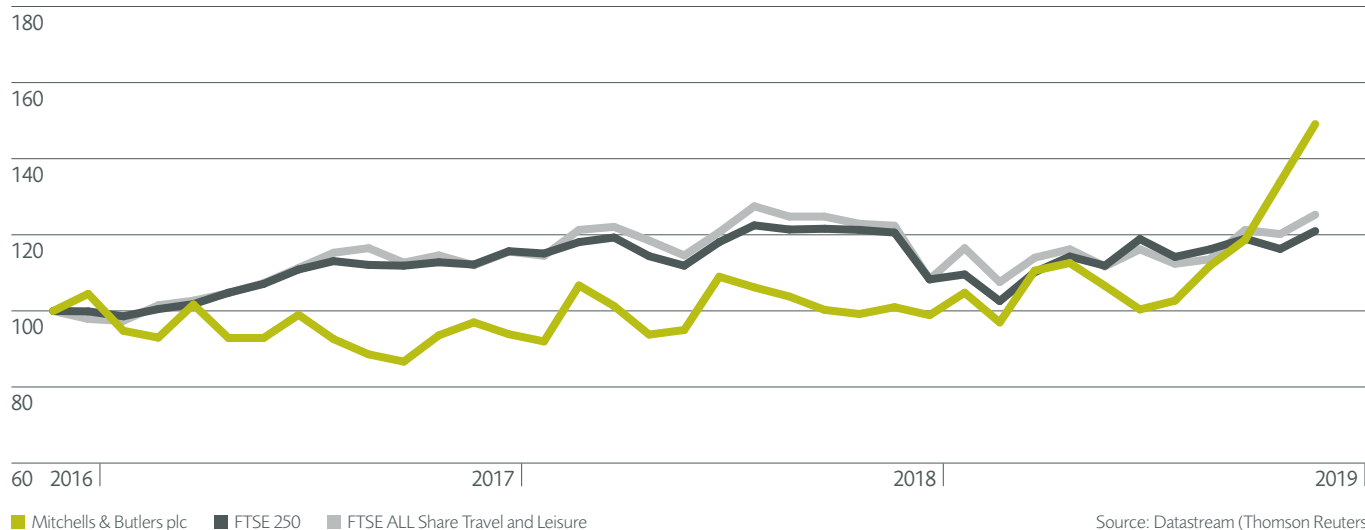
No payments were made to any past Directors in the year ended 28 September 2019.

Total shareholder return from September 2009 to September 2019 (rebased to 100)

This graph shows the value, by 28 September 2019, of £100 invested in Mitchells & Butlers plc on 26 September 2009, compared with the value of £100 invested in the FTSE 250 and the FTSE All Share Travel and Leisure group (operated in the LTIP vesting in 2019).



The graph below illustrates the TSR performance over the past three years, which reflects the performance achieved under the current Chief Executive. At the start of this period the Chief Executive had been in position for a year and had completed a strategic review of the business, identifying three strategic priorities and had commenced on the first wave of Ignite initiatives. Over the three year period the performance of the business has steadily improved as further Ignite initiatives have been implemented and benefits have started to be realised.



CEO EARNINGS HISTORY

Year ended	25/09/10	24/09/11	29/09/12	28/09/13	27/09/14	26/09/15	24/09/16	30/09/17	29/09/18	28/09/19
Phil Urban										
Single figure remuneration (£000)	–	–	–	–	–	–	613	770	819	1,684
Annual bonus outcome (% of max)	–	–	–	–	–	–	–	28	39	82
LTIP vesting outcome (% of max)	–	–	–	–	–	–	–	–	–	47.5
Alistair Darby										
Single figure remuneration (£000)	–	–	–	982 ^a	642	878	–	–	–	–
Annual bonus outcome (% of max)	–	–	–	71.0	–	–	–	–	–	–
LTIP vesting outcome (% of max)	–	–	–	n/a	n/a	19.0	–	–	–	–
Bob Ivell										
Single figure remuneration (£000)	–	–	557	69 ^b	–	–	–	–	–	–
Annual bonus outcome (% of max)	–	–	n/a ^c	n/a ^c	–	–	–	–	–	–
LTIP vesting outcome (% of max)	–	–	n/a ^c	n/a ^c	–	–	–	–	–	–
Jeremy Blood										
Single figure remuneration (£000)	–	397	50	–	–	–	–	–	–	–
Annual bonus outcome (% of max)	–	– ^d	n/a ^c	–	–	–	–	–	–	–
LTIP vesting outcome (% of max)	–	n/a ^c	–	–	–	–	–	–	–	–
Adam Fowle										
Single figure remuneration (£000)	1,315	483 ^e	–	–	–	–	–	–	–	–
Annual bonus outcome (% of max)	87.6	16.0	–	–	–	–	–	–	–	–
LTIP vesting outcome (% of max)	16.2	24.2	–	–	–	–	–	–	–	–

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

CHANGE IN REMUNERATION OF THE CEO

	Salary (£)			Taxable benefits (£)			Bonus (£)		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
CEO	520,000	510,000	2.0	15,789	15,557	1.5	423,156	200,034	111.5
Salaried employees	34,321	32,383	6.0	895	728	22.9	4,744	2,449	93.7

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

Salaried employees with part-year service in either FY 2018 or FY 2019 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, largely part time and do not participate in any bonus plans. The CEO figures do not include LTIP awards or pension benefits that are disclosed in the single figure table.

CEO PAY RATIOS

For the last three years Mitchells & Butlers has disclosed the pay ratio between the CEO and the median pay of other employees, reflecting emerging best practice. The Government has now introduced legislation that will require all quoted companies with more than 250 employees to publish the ratio of their CEO's pay, using the single figure for total CEO remuneration to that of the median, 25th and 75th percentile total remuneration of full-time equivalent employees. Whilst this legislation does not require Mitchells & Butlers to comply until the 2020 Annual Report, the Committee feels that it is important to continue to take a lead in this area, as it provides a helpful opportunity to demonstrate the link between CEO pay in the context of overall workforce remuneration. The table below sets out the CEO pay ratio at the median, 25th and 75th percentile for 2019, compared to 2018.

Financial year	CEO pay ratio			
	Method	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2019	Option C	120:1	112:1	106:1
2018	Option C	61:1	58:1	52:1

The lower quartile, median and upper quartile employees were calculated based on full-time equivalent base pay data as at 28 September 2019. This calculation methodology was selected as the data was felt to be the most accurate way of identifying the best equivalents of P25, P50 and P75 and, therefore, the most accurate measurement of our pay ratios. Of the three allowable methodologies under the forthcoming legislation, this method is classed as 'Option C'. Option A was considered but given the high levels of team member turnover, it was felt more appropriate to adopt the approach set out above.

The employee pay data has been reviewed and the Committee is satisfied that it fairly reflects the relevant quartiles given the very large proportion of hourly paid team members employed by Mitchells & Butlers (circa 85% of the total workforce). The three representative employees used to calculate the pay ratios are hourly paid and the base pay elements were calculated using a full-time equivalent hourly working week of 35 hours. Hourly paid employees do not participate in the annual bonus plan or long-term incentive plan and in most cases do not have any taxable benefits. Employee pay does not include earnings from tips and service charge, from which many employees benefit. It is Mitchells & Butlers' policy to pass all earnings from tips and service charges to employees.

Pay details for the individuals are set out below:

	CEO (£)	P25 (lower quartile) (£)	P50 (median) (£)	P75 (upper quartile) (£)
Salary	516,044	14,014	14,872	15,575
Total pay	1,680,349	14,014	15,046	15,881

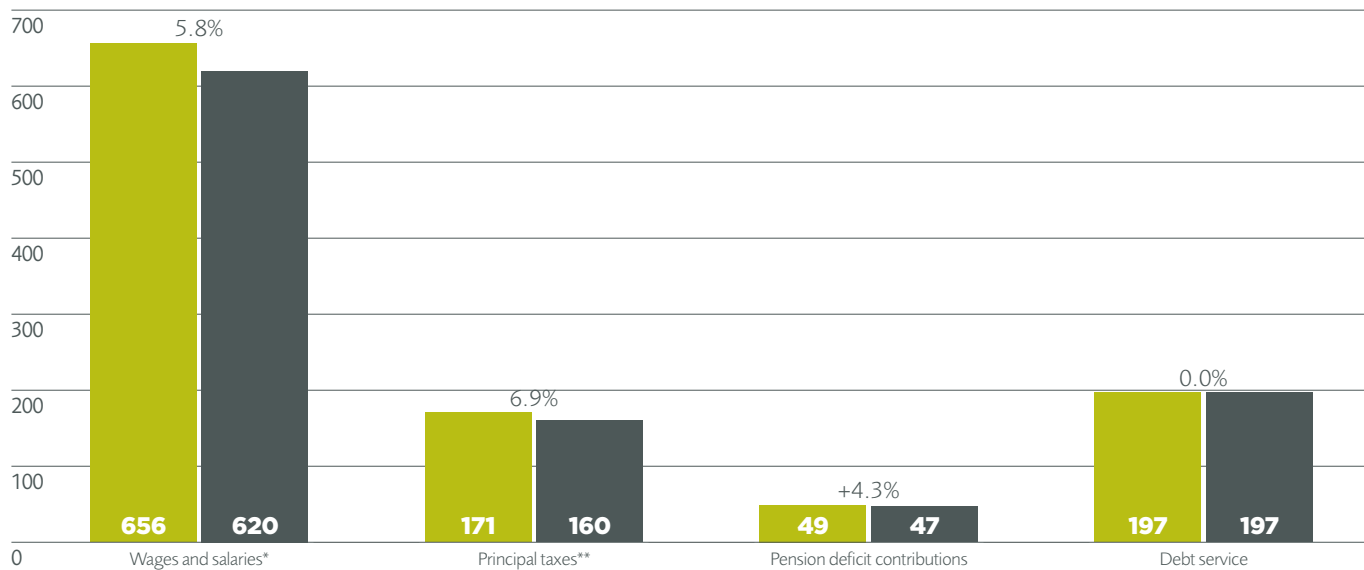
The median pay ratios reported in 2016 and 2017 were completed using a different methodology that calculated actual pay and benefits over the financial year for all employees who had been employed for the full financial year. This methodology is not compliant with the new regulations, but overall the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

The Chief Executive's base salary increased by 2% from 2018 compared to an overall increase in workforce pay of around 4%. The ratio between the base pay of the Chief Executive and the base pay of employees at each quartile has remained broadly static. On a total pay basis, the ratio of workforce pay to the Chief Executive's total pay has increased, reflecting the higher levels of variable pay from annual and long-term incentives that have been paid to the Chief Executive in respect of FY 2019. Whilst the pay ratio has increased because of the incentive payments, the Committee believes that the ratio is broadly consistent with that of other organisations in hospitality and retail that have also seen annual and long-term incentive plans increase total earnings for the Chief Executive.

As stated above, hourly-paid employees do not participate in the annual bonus plan, where salaried employees do participate in an annual bonus plan (circa 5,000 employees); they have also seen average bonus earnings increase in percentage terms by a similar amount as that of the Chief Executive in 2019. More broadly, pay in the hospitality sector is lower than many other sectors and this will be an influencing factor in the overall pay ratio, despite significant increases in pay rates over the last few years.

RELATIVE IMPORTANCE OF SPEND ON PAY £m

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2019, £3.5m (0.5%) was paid to Executive and Non-Executive Directors (2018 £2m (0.3%)).



■ FY 2019 ■ FY 2018 * From note 2.3 to the consolidated financial statements (excludes share-based payments). ** Business Rates, Corporation Tax, Employer's NI.

Details of service contracts and letters of appointment

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

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

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

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles, all Directors, including Non-Executive Directors, will stand for re-election at the 2020 AGM. This is also in line with the provisions of the 2018 UK Corporate Governance Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination.

Ron Robson and Josh Levy were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on page 59.

Copies of the individual letters of appointment for Non-Executive Directors and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2020 AGM.

IMPLEMENTATION OF REMUNERATION POLICY IN FY 2020

Executive Directors' salary review and pension contributions

The Committee has carefully considered the salaries of both Executive Directors, and especially that of the Chief Executive given the very strong performance of the business, noting that there have been a number of new appointments at higher salary levels in the sector. The Committee will continue to keep salaries under review but has concluded for the next increase, due to take effect from 1 January 2020, Phil Urban's salary will be increased to £535,500 (3%) and Tim Jones' salary will be increased to £448,000 (3%). This is a continuation of our approach to increase salaries in line with the workforce.

The Committee is cognisant of the increased focus on pension contributions for Executive Directors and the requirement for these contributions to align, over time, with the broader workforce. The current level is 20% of salary less the cost of employer's national insurance (incurred when this is paid as an allowance through payroll as opposed to being paid as a contribution into a pension), which is passed on to the Executive

Director, therefore the pension allowance paid to Executive Directors currently is 17.6% of base salary. The current employee average pension contribution is circa 4%. We note the recent additional guidance from the Investment Association in relation to pension contributions and the recent publication of its Principles of Remuneration, which also cover Investment Association members' expectations on other areas of the remuneration structure.

The Chief Executive indicated to the Committee a desire to proactively address this issue and, therefore, as a first step, for 2020, the cash equivalent pension contribution will be reduced by the same cash amount as the increase in base pay set out above (3%). This means that for 2020 the cash equivalent contribution for both Executive Directors will reduce to 14.2% and overall fixed pay (salary and pension allowance) remains unchanged versus the prior year.

The Committee will keep this matter under review and will agree, as part of our Policy review during 2020, the best approach to aligning Executive Director pension contributions to the broader workforce over time.

Annual performance bonus

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

	Weighting	Details
Operating Profit	70%	<p>Bonus will begin to accrue at threshold with half of the bonus payable for on-target performance.</p> <p>In setting targets the Committee has once again considered the significant cost headwinds the business faces, expected to be circa £55m in FY 2020, the economic outlook and consumer confidence. In addition, the Committee has also taken into account the further benefits expected from the Ignite programme and the underlying performance of the business.</p> <p>It remains the view of the Committee that even marginal profit growth represents a strong performance in the circumstances.</p> <p>Full payment will require very strong performance, well in excess of current market consensus.</p>
Guest Health	15%	<p>Guest Health will comprise three measures, each with an equal weighting:</p> <ul style="list-style-type: none"> • NPS – a well-established measure of Guest Health, will continue to be assessed in FY 2020. • Social media – The monitoring tool enables all social media reviews, including TripAdvisor, Facebook and Google, to be combined into a single review score. • Guest complaints – There has been an increased focus on improving the speed at which guest complaints are resolved, alongside a commitment to reducing the overall number of complaints received. <p>Combining NPS with an assessment of social media reviews and guest complaints provides a more holistic review of Guest Health. To achieve a maximum payment, performance will need to exceed target on at least two elements, and be at target or better, for the third element.</p>
Employee Engagement	10%	<p>Mitchells & Butlers has measured employee engagement for a number of years, and a clear correlation has been established between employee engagement and guest satisfaction, which, in turn, has a positive impact on sales. For this reason, the Committee has decided to continue to include employee engagement in the bonus scheme.</p>
Food Safety	5%	<p>Food Safety will always be a key priority and including a measure based on the proportion of our businesses that achieve a high National Food Hygiene Rating Scheme score reflects our continued focus on the safe operation of our businesses. An agreed Food Safety score must be achieved for this part of the bonus to pay out and, as an additional check, overall workplace safety will also be taken into account when determining the outcome.</p>

The non-financial elements will only become payable if a certain level of Operating Profit has been achieved. For 2020, this will remain at 97.5% of target, which is ahead of the threshold required for payment under the Operating Profit measure.

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

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

PERFORMANCE RESTRICTED SHARE PLAN (PRSP) 2020–22

A PRSP award is due to be made in respect of the 2020–22 performance period. The Committee has reviewed the performance condition and has concluded that the performance measures should remain unchanged, with two independent elements, Operating Cash Flow (75% weighting) and relative TSR (25% weighting).

As set out in last year's report, in setting the target range for 2020–22 the Committee has again considered the cost headwinds that are anticipated to continue through the plan cycle. The Committee also took into account the potential benefits from current and future Ignite initiatives. The Operating Cash Flow target range will have a threshold set at £1,332m and maximum at £1,362m. Operating Profit is the key performance driver of Operating Cash Flow and this target range requires growth of circa £30m from the 2019–21 plan at both threshold and maximum, which the Committee considers to be a stretching target range in the circumstances. As a comparison, Operating Profit in the previous three years was flat over the period. On an earnings-equivalent basis, the adjusted EPS target range is 4.5% to 7% CAGR, broadly the same as the 2019–21 plan. The application of IFRS 16 will change reported Operating Profit, depreciation and amortisation, all of which are component parts of our Operating Cash Flow measure. The Committee will ensure that any restated targets for IFRS 16 are no less stretching than those set out above.

The current TSR comparator group comprises five peer companies (EI Group, Greene King, Marston's, The Restaurant Group and JD Wetherspoon). Following the purchase of Greene King by CKA and the proposed purchase of EI Group by Stonegate there would only be three peer companies in the comparator group, rendering the index-based approach used in prior years unsuitable. The Committee has considered the alternative options and concluded that for the 2020–22 plan the most appropriate approach is to revert to the FTSE All Share Travel and Leisure group. This group is felt to be more relevant than a broad index such as the FTSE 250, as all of the constituents compete for the same leisure spend and with over 30 constituents will not be impacted by future delistings in the same way as the current peer group has been. 25% will vest for TSR performance equivalent to the median performance of the comparator group and 100% will vest for performance equivalent to the upper quartile of the group. The TSR element will continue to be subject to a share price underpin and may only be exercised where the Mitchells & Butlers share price has equalled or exceeded the share price at the date of the award within six months of the vesting date.

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

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

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

** Consisting of the constituents of the FTSE All Share Travel and Leisure group.

NON-EXECUTIVE DIRECTORS' FEE REVIEW

The Chairman and Non-Executive Director fees were last reviewed in January 2019. No changes are proposed for 2020.

IMELDA WALSH

Chair of the Remuneration Committee
19 November 2019

a. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 156 to 158 of this report.

Financial statements

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**REPORT ON THE AUDIT OF THE
FINANCIAL STATEMENTS**

Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 28 September 2019 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

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

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

Basis for opinion

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

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

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

SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> • Onerous lease provisions • Valuation of the pub estate • Compliance with debt covenants
Materiality	The materiality that we used for the Group financial statements was £9.65m which was determined on the basis of approximately 5% of profit before tax before separately disclosed items.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with 2018.
Significant changes in our approach	There have been no changes in the key audit matters included in our audit report since 2018. This is consistent with the fact that the operations of the Group are largely unchanged from the previous year.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in Section 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
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We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

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

Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
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- the disclosures on pages 40–45 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 45 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

KEY AUDIT MATTERS

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

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Onerous lease provisions</p> <p>As set out in section 3.3, property provisions are £36m (2018 £43m) of which £34.7m (2018 £41.9m) relates to onerous lease provisions. The accounting policy and the critical accounting judgement in relation to property provisions are set out in section 3.3.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 74.</p> <p>Loss-making short leasehold properties are reviewed by management to determine whether an onerous lease provision is required. Judgements in relation to expected trading levels, the appropriate lease term over which to provide, the impact of expansionary capital, the potential opportunity to exit the leases early and the appropriate discount rate to use are applied when assessing the level of onerous lease provision required. Therefore, we have identified a potential risk of fraud in this key audit matter.</p> <p>Focus areas</p> <p>Given the size of the leasehold estate there is a risk that where a site is underperforming, the cash flows generated may not be adequate to cover future lease obligations, resulting in the requirement for an onerous lease provision for the unavoidable cash outflows on loss making properties. We focused on the valuation and completeness of the onerous lease provision by assessing the judgements used in arriving at the level of the provision for each site. Furthermore, we also focused on sites where a turnaround or exit plan is in place.</p>	<p>We performed the following procedures to respond to the key audit matter:</p> <ul style="list-style-type: none"> • we assessed the appropriateness of the classification of property provisions provided in the period as a before separately disclosed item in accordance with IAS 1 Presentation of Financial Statements; • we checked that all leasehold sites were considered in management's process to identify sites which were potentially subject to onerous lease provisions; • where onerous lease provisions have not been recognised, despite historical results indicating that a provision may be required, we obtained evidence to support management's assertion that properties can be successfully turned around. This included assessing the success of previous actions undertaken by management to turnaround similar sites; • we tested a sample of loss making short leasehold and unlicensed properties to challenge management's estimate of the unavoidable cash outflows on loss making properties that are forecast to arise from these properties over the remaining term of the lease; • we assessed the appropriateness of forecast EBITDAs taking into consideration the cost saving and sales opportunities identified by management following a benchmarking exercise. This included performing a retrospective review of forecasting accuracy for those properties included in the 2018 benchmarking exercise; • we tested the integrity of the information used within the onerous lease provision calculation by agreeing inputs back to source data including historical results, and rental commitments; and • we assessed the appropriateness of the risk free discount rate used through comparison to appropriate external benchmarks. <p>Additionally, we tested the controls in relation to the calculation of the onerous lease provision for properties where current period EBITDA is used as a proxy for future cash flows arising from properties. The controls tested covered management's review of:</p> <ul style="list-style-type: none"> • the completeness and accuracy of the inputs into the onerous lease provision model; and • the key assumptions used in determining the provision to be recognised. 	<p>We consider that the onerous lease provision is within a reasonable range and that the presentation of the movements in the onerous lease provision is in accordance with IAS 1.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Valuation of the pub estate</p> <p>As set out in section 3.1 the value of the estate is £4,528m (2018 £4,426m).</p> <p>Freehold and long leasehold</p> <p>The accounting policy adopted, critical accounting judgements applied and key sources of estimation uncertainty are described in section 3.1 to the financial statements.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 74.</p> <p>This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 28 September 2019 is £4,343m (2018 £4,230m). The revaluation exercise performed in the year has resulted in a net increase of £87m versus carrying value (2018 £33m decrease), which includes an impairment charge of £4m (2018 £28m) recognised in the income statement. The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels and estimated multiples which are derived for each of the Group's trading brands. Approximately 20% of the freehold and long leasehold estate has been inspected by the Group's external valuers, with the result of the inspection informing the brand standard multiples which are then extrapolated across the remainder of the estate.</p> <p>In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied.</p> <p>Where sites have been impacted by expansionary capital investment in the preceding 12 months, fair maintainable trade is taken as the post investment forecast. Sites that have been open for more than three periods (2018 three periods) are reviewed for impairment.</p>	<p>We worked with our property valuation specialists and management's external advisers to challenge the methodology and underlying assumptions used in the freehold and long leasehold pub estate valuation. This included:</p> <ul style="list-style-type: none"> • confirming the appropriateness of the estimated fair maintainable trading levels being used to value the properties; • obtaining evidence to support the appropriateness of the valuations of the inspected estate when benchmarked to transaction activity in the licensed retail property market. In particular we considered the agreed terms of the sales of Greene King plc and Ei Group plc during 2019 and the associated impact on the valuation of the Group's properties; • testing the application of the multiple derived from the valuation of inspected properties to the rest of the estate; • obtaining evidence to support the future projected income used in the impairment reviews for freehold and long leasehold sites which have been impacted by expansionary capital investment in the preceding twelve months. This included performing a retrospective review of forecasting accuracy for those properties impacted by expansionary capital investment in the past three years; and • reviewing the appropriateness and completeness of any spot valuations made. <p>Additionally, we tested controls in relation to the valuation of the freehold and long leasehold estate. The controls tested covered management's review of:</p> <ul style="list-style-type: none"> • the completeness and accuracy of the key inputs into the revaluation model; • the key judgements made in relation to fair maintainable trading levels and multiples; and • the completeness of spot valuations. 	<p>We are in agreement with the methodology chosen and the assumptions adopted to revalue the pub estate. We consider the determination of fair maintainable trading levels to be at the conservative end of the range. We concur that the valuations are suitable for inclusion in the financial statements.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Valuation of the pub estate continued		
<p>Short leasehold The accounting policy adopted and judgements used are described in section 3.1 to the financial statements.</p> <p>The total value of short leasehold properties as at 28 September 2019 is £157m (2018 £156m). Judgements in relation to expected trading levels, whether the site has the potential to be turned around and discount rates are applied when calculating short leasehold property impairments. The Group recorded an impairment charge of £7m (2018 £15m) in the year, offset by reversal of past impairments of £2m (2018 £nil).</p> <p>Focus areas Given the amounts capitalised and the risk associated across the freehold, long leasehold and short leasehold sites we have focused our procedures on the assessment made by management of:</p> <ul style="list-style-type: none"> the appropriateness of the fair maintainable trading levels and brand multiple assumptions applied to the freehold and long leasehold estate on a site by site basis; the valuation of freehold and long leasehold sites impacted by expansionary capital, challenging the need for any impairment of property, plant and equipment required at an individual outlet level; and the requirement for any impairment in respect of the property, plant and equipment held in the short leasehold estate at an individual outlet level. <p>In addition, due to the level of subjective judgements involved in respect of multiple and fair maintainable trade assumptions which are inherently uncertain, we have identified a potential risk of fraud in this key audit matter.</p>	<p>We challenged the assumptions used by management within the impairment reviews performed for the short leasehold estate. This included:</p> <ul style="list-style-type: none"> obtaining evidence to support management's assertion that short leasehold properties can be successfully turned around where properties have not been impaired due to management's expectation that the performance of the properties will improve. This included obtaining evidence to support management's turnaround plans and performance of a retrospective review considering the success of historic turnaround plans; we tested a sample of loss making short leasehold properties to challenge management's estimate of the cash flows that are forecast to arise from these properties over the remaining term of the lease; we assessed the appropriateness of forecast EBITDAs taking into consideration the cost saving and sales opportunities identified by management following a benchmarking exercise. This included performing a retrospective review of forecasting accuracy for those properties included in the 2018 benchmarking exercise; testing the integrity of the information used within the model by agreeing inputs back to source data including historical results and lease terms; and assessing the appropriateness of the discount rate through recalculation and performing sensitivity analysis. <p>Additionally, we tested controls in relation to the short leasehold impairment review. The controls tested covered management's reviews of:</p> <ul style="list-style-type: none"> the completeness and accuracy of the inputs into the short leasehold impairment model; and the key assumptions used in determining the impairment to recognise. 	

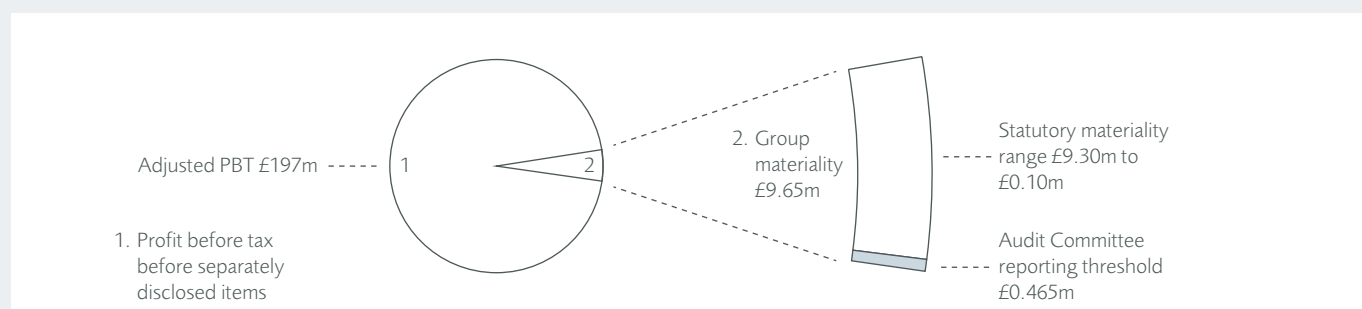
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Compliance with debt covenants		
<p>The primary source of borrowing for the Group is secured loan notes of £1,752m at 28 September 2019 (2018 £1,830m). This debt is secured on the majority of the properties owned by the Group (properties held within a subsidiary company, Mitchells & Butlers Retail Limited). The Group also has £150m of unsecured credit facilities. There are covenants attached to both the secured loan notes and the unsecured revolving credit facilities.</p> <p>The industry continues to face inflationary cost pressures. In addition, there is uncertainty around the terms and timing of the United Kingdom's exit from the European Union, and the outcome of the general election on 12 December 2019. We therefore identified that the forecasting of EBITDA during the going concern period is subject to significant judgements and estimates.</p> <p>The key risk identified is the Group's ability to meet the forecasted EBITDA over the going concern period for the financial covenants attached to the secured loan notes. This test is measured at each quarter end date, in respect of the previous two quarters and the previous year, for Mitchells & Butlers Retail Limited.</p> <p>Debt covenants are further disclosed within Note 4.2 of the Group financial statements, as well as being disclosed on page 48.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 74.</p>	<p>We performed the following procedures to respond to the key audit matter:</p> <ul style="list-style-type: none"> obtained an understanding of controls in relation to the management review of the budget and forecast covenant compliance; reviewed management's going concern assessment, by challenging management to understand the key drivers forming the basis of the EBITDA forecasts and challenging the assumptions used in the base case scenario using industry forecasts, historical performance and our understanding of the business; challenged the appropriateness of the reasonably possible sensitivities used in management's downside scenario over the going concern period; reviewed and challenged management's key assumptions by reference to independent industry sources and relevant supporting evidence and sensitising the impact these have on management's assessment of profitability; considered the feasibility of the mitigating actions that management have at their disposal should the financial covenants be close to being breached; and reviewed the disclosures on going concern to confirm that they are consistent with the knowledge we have acquired during the course of our audit and to confirm that the disclosures are consistent with the overall requirement for the Annual Report to be fair, balanced and understandable. 	<p>We concur with management's assumptions in relation to the going concern status of the Group and the resulting going concern disclosures.</p>

OUR APPLICATION OF MATERIALITY

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

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

	Group financial statements	Company financial statements
Materiality	£9.65m (2018 £8.8m)	£9.3m (2018 £8.5m)
Basis for determining materiality	Approximately 5% (2018 5%) of profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and past service cost in relation to the defined benefit pension scheme obligation. Adjusted items relate to separately disclosed items in note 2.2 (2018 profit before tax adjusted for net profit arising on property disposals, movements in the valuation of the property portfolio and separately disclosed pension legal costs).	Parent company materiality equates to 0.5% of net assets (2018 0.4%), which is capped at 96% of Group materiality (2018 97%).
Rationale for the benchmark applied	Profit before tax before separately disclosed items is a key measure used by the Group in reporting its results to allow a better understanding of the adjusted trading of the Group and is also a key measure considered by users of the accounts.	The parent company does not trade so materiality has been determined using net assets.



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018 70%). In determining performance materiality, we considered factors including:

- our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over key business processes; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £465,000 (2018 £440,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business which accounts for 99% (2018 99%) of the Group's total assets, 96% (2018 96%) of revenue and 96% (2018 96%) of operating profit. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with 2018. At the parent entity level we also tested the consolidation process, as well as the Company balance sheet to parent company materiality.

Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £9.3m (2018 £1 to £8.5m).

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

Our consideration of the control environment

The Group uses JDE Enterprise for financial reporting in all of its legal entities. We utilised our IT specialists to assess key controls over the JDE Enterprise system, plus other key IT systems relevant to our audit including Stock Wastage System, STEP, Aztec, Data Warehouses, Robot Scheduler, Sterling and Biztalk and the supporting infrastructure for these applications.

Over the course of the year, management have undertaken an exercise to further strengthen the IT environment, which resulted in a number of new controls being implemented during the year. We performed additional procedures, through a combination of review of mitigating controls in place and exposure testing, to mitigate IT audit risks where new controls had not been in place for the full year, or are due to be implemented post year-end, for example, reviewing system logs to determine whether there had been any inappropriate access during the year. We were able to mitigate all identified IT audit risks relevant to our audit through a combination of operating effectiveness testing of controls and additional procedures.

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

OTHER INFORMATION

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

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

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

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

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

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

Identifying and assessing potential risks related to irregularities

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

- enquiring of management, Group Assurance, in-house legal counsel including the Company Secretary and General Counsel, and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including property, tax, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas: valuation of pub estate, onerous lease provisions and compliance with debt covenants; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, tax legislation, data protection regulations, licensing regulations, occupational health and safety regulations, responsible drinking regulations, planning and building legislation and employment legislation.

Audit response to risks identified

As a result of performing the above, we identified onerous lease provisions, valuation of the pub estate and compliance with debt covenants as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing Group Assurance reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is nine years, covering the years ending 24 September 2011 to 28 September 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

USE OF OUR REPORT

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

JOHN CHARLTON FCA

(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

19 November 2019

GROUP INCOME STATEMENT
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	2019 52 weeks			2018 52 weeks		
		Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m	Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m
Revenue	2.1, 2.3	2,237	–	2,237	2,152	–	2,152
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(1,801)	(19)	(1,820)	(1,730)	(6)	(1,736)
Net profit arising on property disposals	2.2, 2.3	–	1	1	–	1	1
EBITDA^b		436	(18)	418	422	(5)	417
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(119)	(2)	(121)	(119)	(43)	(162)
Operating profit		317	(20)	297	303	(48)	255
Finance costs	4.3	(114)	–	(114)	(119)	–	(119)
Finance revenue	4.3	1	–	1	1	–	1
Net pensions finance charge	4.3, 4.5	(7)	–	(7)	(7)	–	(7)
Profit before tax		197	(20)	177	178	(48)	130
Tax (charge)/credit	2.2, 2.4	(38)	4	(34)	(33)	7	(26)
Profit/(loss) for the period		159	(16)	143	145	(41)	104
Earnings per ordinary share							
– Basic	2.5	37.2p		33.5p	34.1p		24.5p
– Diluted	2.5	37.1p		33.3p	34.0p		24.4p

a. Separately disclosed items are explained and analysed in note 2.2.

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

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

All results relate to continuing operations.

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	2019 52 weeks £m	2018 52 weeks £m
Profit for the period		143	104
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	3.1	84	(5)
Remeasurement of pension liability	4.5	15	5
Tax relating to items not reclassified	2.4	(18)	–
		81	–
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
– (Losses)/gains arising during the period	4.4	(81)	16
– Reclassification adjustments for items included in profit or loss	4.4	23	34
Tax relating to items that may be reclassified	2.4	10	(8)
		(48)	42
Other comprehensive income after tax		33	42
Total comprehensive income for the period		176	146

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

GROUP BALANCE SHEET
28 SEPTEMBER 2019

	Notes	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets	3.4	14	11
Property, plant and equipment	3.1	4,528	4,426
Lease premiums		1	1
Interests in associates	3.5	5	5
Deferred tax asset	2.4	66	63
Derivative financial instruments	4.4	53	44
Total non-current assets		4,667	4,550
Inventories	3.2	26	26
Trade and other receivables	3.2	63	56
Other cash deposits	4.1	–	120
Cash and cash equivalents	4.1	133	122
Derivative financial instruments	4.4	3	4
Total current assets		225	328
Total assets		4,892	4,878
Liabilities			
Pension liabilities	4.5	(50)	(49)
Trade and other payables	3.2	(327)	(302)
Current tax liabilities		(12)	(9)
Borrowings	4.2	(95)	(233)
Derivative financial instruments	4.4	(36)	(37)
Total current liabilities		(520)	(630)
Pension liabilities	4.5	(165)	(200)
Borrowings	4.2	(1,657)	(1,744)
Derivative financial instruments	4.4	(266)	(207)
Deferred tax liabilities	2.4	(301)	(285)
Provisions	3.3	(36)	(43)
Total non-current liabilities		(2,425)	(2,479)
Total liabilities		(2,945)	(3,109)
Net assets		1,947	1,769
Equity			
Called up share capital	4.7	37	37
Share premium account	4.7	26	26
Capital redemption reserve	4.7	3	3
Revaluation reserve	4.7	1,267	1,197
Own shares held	4.7	(4)	(1)
Hedging reserve	4.7	(250)	(202)
Translation reserve	4.7	14	14
Retained earnings		854	695
Total equity		1,947	1,769

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 19 November 2019.

They were signed on its behalf by:

TIM JONES

Chief Financial Officer

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	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 30 September 2017	36	26	3	1,202	(1)	(244)	14	590	1,626
Profit for the period	–	–	–	–	–	–	–	104	104
Other comprehensive (expense)/income	–	–	–	(4)	–	42	–	4	42
Total comprehensive (expense)/income	–	–	–	(4)	–	42	–	108	146
Share capital issued	–	1	–	–	–	–	–	–	1
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Dividends paid	–	–	–	–	–	–	–	(7)	(7)
Revaluation reserve realised on disposal of properties	–	–	–	(1)	–	–	–	1	–
Scrip dividend related share issue	1	(1)	–	–	–	–	–	–	–
At 29 September 2018	37	26	3	1,197	(1)	(202)	14	695	1,769
Profit for the period	–	–	–	–	–	–	–	143	143
Other comprehensive income/(expense)	–	–	–	70	–	(48)	–	11	33
Total comprehensive income/(expense)	–	–	–	70	–	(48)	–	154	176
Purchase of own shares	–	–	–	–	(3)	–	–	–	(3)
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Tax on share-based payments	–	–	–	–	–	–	–	2	2
At 28 September 2019	37	26	3	1,267	(4)	(250)	14	854	1,947

GROUP CASH FLOW STATEMENT
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Notes	2019 52 weeks £m	2018 52 weeks £m
Cash flow from operations			
Operating profit		297	255
Add back: adjusted items	2.2	20	48
Operating profit before adjusted items		317	303
Add back:			
Depreciation of property, plant and equipment	2.3	116	116
Amortisation of intangibles	2.3	3	3
Cost charged in respect of share-based payments	4.6	3	3
Administrative pension costs	4.5	3	2
Operating cash flow before adjusted items, movements in working capital and additional pension contributions		442	427
Increase in inventories		–	(1)
Increase in trade and other receivables		(9)	(1)
Increase in trade and other payables		25	4
Decrease in provisions		(7)	–
Additional pension contributions	4.5	(49)	(48)
Cash flow from operations before adjusted items		402	381
Cash flow from adjusted items		–	(2)
Interest paid		(113)	(120)
Interest received		2	1
Tax paid		(25)	(20)
Net cash from operating activities		266	240
Investing activities			
Purchases of property, plant and equipment		(147)	(167)
Purchases of intangible assets		(5)	(4)
Proceeds from sale of property, plant and equipment		14	5
Acquisition of investment in associates	3.5	–	(5)
Transfers from other cash deposits		120	–
Net cash used in investing activities		(18)	(171)
Financing activities			
Issue of ordinary share capital		–	1
Purchase of own shares		(3)	–
Dividends paid (net of scrip dividend)	4.7	–	(7)
Repayment of principal in respect of securitised debt	4.1	(87)	(82)
Repayment of liquidity facility	4.1	(147)	–
Net movement on unsecured revolving credit facilities	4.1	–	(6)
Net cash used in financing activities		(237)	(94)
Net increase/(decrease) in cash and cash equivalents		11	(25)
Cash and cash equivalents at the beginning of the period		122	147
Cash and cash equivalents at the end of the period	4.1	133	122

The notes on pages 111 to 150 form an integral part of these consolidated financial statements.

GENERAL INFORMATION

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 149.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic report on pages 10 to 49.

The Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006.

The Group's accounting reference date is 30 September. The Group draws up its consolidated financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 28 September 2019 and the comparative period ended 29 September 2018 both include 52 trading weeks.

The consolidated financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

The Group's accounting policies have been applied consistently.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc ('the Company') and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at the previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the year are included in the Group income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 10 to 49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review.

Note 4.4 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.2 to the consolidated financial statements, the Group's financing is based upon securitised debt and unsecured borrowing facilities.

The Directors have, at the time of approving the consolidated financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements. In addition, the Directors have provided a review of long-term viability on page 45, which assesses the Group's ability to continue in operation and meet its liabilities as they fall due over a three year period.

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 Group income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction.

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the Group income statement as part of the gain or loss on sale.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.13 (2018 £1 = €1.13), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2018 £1 = €1.12) and £1 = \$1.23 (2018 £1 = \$1.30) respectively.

NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT PERIOD

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these consolidated financial statements for the first time, with no material impact:

IFRS 9 Financial Instruments

In the current period, the Group has adopted IFRS 9 and the related consequential amendments to other IFRS Standards that are effective for financial periods starting on or after 1 January 2018. The date of initial application for the Group is 30 September 2018.

IFRS 9 introduced new requirements for:

- (i) classification and measurement of financial assets and financial liabilities;
- (ii) impairment of financial assets; and
- (iii) general hedge accounting.

Details of these new requirements as well as their impact on the consolidated financial statements are described below:

Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of those financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

The Directors of the Company reviewed and assessed the Group's existing financial assets as at 30 September 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no significant impact on the classification and measurement of financial assets in the consolidated financial statements. The only financial assets of the Group related to those classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect

contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Additionally, there is no change to the classification or measurement of the derivative financial instrument assets designated in effective hedge relationships.

The disclosure in note 4.4 has been amended to describe these financial assets as financial assets at amortised cost from loans and receivables.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39.

The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets i.e. it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

- (i) debt investments measured subsequently at amortised cost or at FVTOCI;
- (ii) lease receivables;
- (iii) trade receivables and contract assets;
- (iv) financial guarantee contracts to which the impairment requirements of IFRS 9 apply; and
- (v) cash and cash equivalents.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months' ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The Directors have assessed the impact of lifetime expected credit losses for the relevant financial assets of the Group. For cash and cash equivalents, all bank balances are assessed to have low credit risk as they are held with reputable international banking institutions. For trade and other receivables the Group has adopted the simplified approach under IFRS 9. The lifetime expected credit loss calculated has not resulted in an additional credit loss allowance being recognised in the current period.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Group's exposure to credit risk (see note 4.4).

General hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 30 September 2018. The Group's qualifying hedging relationships in place as at this date also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on initial application. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships meet IFRS 9's effectiveness assessment requirements. The Group has not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognised as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). IFRS 9 clarifies that transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Group's practice prior to the adoption of IFRS 9.

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current and/or prior years. Please refer to note 4.4 for detailed disclosures regarding the Group's risk management activities.

Overall IFRS 9 impact

The application of IFRS 9 has had no impact on the Group balance sheet, the Group income statement, the Group statement of comprehensive income or the Group cash flow statement.

IFRS 15 Revenue from Contracts with Customers

In the current period, the Group has adopted IFRS 15 which is effective for financial periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

- Step 1: Identify the contract with a customer
 Step 2: Identify the performance obligations in the contract
 Step 3: Determine the transaction price
 Step 4: Allocate the transaction price to the performance obligations in the contract
 Step 5: Recognise revenue when the entity satisfies a performance obligation

As the majority of the Group's revenue is in relation to the sale of food and drink within pubs and restaurants, for which the consideration is known and the performance obligations are satisfied at the point of sale, the application of IFRS 15 has had no impact on the financial position or performance of the Group.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

The Group has adopted the amendments to IFRS 2 for the first time in the current period. The amendments clarify the following:

- (i) In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity settled share-based payments.
- (ii) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability, such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- (iii) A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows: the original liability is derecognised; the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

These amendments have had no impact on the consolidated financial statements.

Annual improvements to IFRSs: 2014 to 2016 Cycle

The Group has adopted the amendments to IAS 28 included in the Annual Improvements to IFRS Standards 2014–2016 Cycle for the first time in the current year. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. These amendments have had no impact on the consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

These amendments have had no impact on the consolidated financial statements.

NEW AND REVISED IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

Accounting standard	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IAS 28 Long-term Interest in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement	1 January 2019

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future periods.

IMPACT OF ADOPTION OF IFRS 16 LEASES

General impact of application of IFRS 16
 IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the consolidated financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 29 September 2019.

Given the number of leases and historical data requirements to adopt the fully retrospective approach, the Group intends to apply the modified retrospective approach, with assets equal to liabilities, at transition. This approach will not require restatement of comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact on the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 29 September 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all of the economic benefits from the use of an identified asset; and
- the right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 29 September 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- (i) recognise right-of-use assets and lease liabilities in the Group balance sheet, initially measured at the present value of the future lease payments;
- (ii) recognise depreciation of right-of-use assets and interest on lease liabilities in the Group income statement; and
- (iii) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Group cash flow statement.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

The Group will recognise total lease liabilities of £546m in respect of all its leases. The weighted average incremental borrowing rate used to calculate the opening lease liabilities was 3.5%.

The following is a reconciliation of total operating lease commitments at 28 September 2019, as disclosed in note 2.3, to the lease liabilities recognised at 29 September 2019:

	£m
Total operating lease commitments at 28 September 2019 (note 2.3)	678
Reconciling items:	
– Short term leases	(1)
– Lease commitments for periods post break clauses	120
– Assumed lease extensions	5
Operating lease liabilities before discounting	802
Impact of discounting using incremental borrowing rate	(256)
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546

The Group will recognise a corresponding right-of-use asset of £500m in respect of all of its leases.

Lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental costs on a straight-line basis.

Lease premiums will be recognised as part of the measurement of the right-of-use assets whereas under IAS 17 they resulted in the recognition of a prepayment and were depreciated on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts. The Group will apply the practical expedient to rely on its assessment of onerous lease contracts under IAS 37 as an alternative to performing an impairment review at the transition date. The right of use asset will be adjusted for the value of the onerous lease provision immediately before the transition date. The onerous lease provision at 28 September 2019 is £35m. An amount of £31m will be recognised as impairment at transition, with an amount of £2m recognised in opening retained earnings, representing the excess onerous lease provision as a result of a lower discount rate being used for the onerous lease provision compared to lease liabilities under IFRS 16. The remaining provision of £2m will continue to be held as a provision as it relates to service charge, which is a variable lease commitment.

Impact on lessor accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income). An amount of £19m will be derecognised from the opening right-of-use asset and recognised as a finance lease receivable at transition. The expected credit loss at transition is £nil.

The following is a reconciliation of the opening lease liabilities to the opening right-of-use assets:

	£m
Total lease liabilities recognised under IFRS 16 at 29 September 2019	546
Reconciling items:	
– Lease premiums	1
– Lease incentives	(9)
– Lease prepayments	11
– Dilapidations costs	1
– Impairment recognised	(31)
– Subleases derecognised and recognised as finance lease receivables	(19)
Total right-of-use assets recognised under IFRS 16 at 29 September 2019	500

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and judgements are periodically reviewed and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Details of the Group's critical accounting judgements and estimates are described within the relevant accounting policy section in each of the notes to the consolidated financial statements.

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 3.3 Provisions
- Note 4.5 Pensions

Key sources of estimation uncertainty are described in:

- Note 3.1 Property, plant and equipment

2.1 SEGMENTAL ANALYSIS

Accounting policies

Operating segments

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance; operating and competitive risks; and return on invested capital. As such, the Group reports the business as one reportable business segment.

The CODM uses EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures of the Group's results on an aggregated basis.

Geographical segments

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

Geographical segments

	UK		Germany		Total	
	2019 52 weeks £m	2018 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m
Revenue – sales to third parties	2,147	2,071	90	81	2,237	2,152
Segment non-current assets ^a	4,531	4,428	12	10	4,543	4,438

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

2.2 SEPARATELY DISCLOSED ITEMS

Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans.

Separately disclosed items are those which are separately identified by virtue of their size or incidence and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise, impairment review of short leasehold and unlicensed properties, revaluation of assets held for sale, legal costs associated with the dispute in relation to the defined benefit pension scheme and past service cost in relation to the defined benefit pension obligation.

Critical accounting judgements

Judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Separately disclosed items are identified as follows:

- One-off legal costs associated with the ongoing court case between the Company and the Trustee of the Defined Benefit Pension scheme in relation to the rate of inflation applied to pension increases for certain sections of the membership. These costs would prevent year on year comparability of the Group's trading if not separately disclosed.
- Past service cost in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions (GMPs) equalisations. This has been disclosed separately as it is not considered part of the adjusted trade performance of the Group and would prevent year on year comparability of the Group's trading if not separately disclosed.
- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market. This movement is also not considered to be part of the adjusted trade performance of the Group and would prevent year on year comparability of the Group's trading performance if not separately disclosed.

2.2 SEPARATELY DISCLOSED ITEMS CONTINUED

The items identified in the current period are as follows:

	Notes	2019 52 weeks £m	2018 52 weeks £m
Adjusted items			
Legal costs associated with the defined benefit pension scheme	a	–	(6)
Past service cost in relation to the defined benefit obligation	b	(19)	–
Total adjusted items recognised within operating costs		(19)	(6)
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio (see note 3.1):			
– Impairment arising from the revaluation	c	(4)	(28)
– Impairment of short leasehold and unlicensed properties	d	(5)	(15)
– Reversal of past impairment on transfer to assets held for sale	e	7	–
Net movement in the valuation of the property portfolio		(2)	(43)
Total adjusted items before tax		(20)	(48)
Tax credit relating to above items		4	7
Total adjusted items after tax		(16)	(41)

- As previously disclosed in the prior period, there are ongoing legal proceedings between the Company (as principal employer) and Mitchells & Butlers Pensions Limited (as Trustee) for which costs have been incurred both by the Company and by the Trustee, but which the Company has agreed to pay. The legal proceedings are in relation to the Mitchells & Butlers Pension Plan (MABPP), whereby the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions. The Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions of the Trust Deed and Rules, has made an application to court for those various Trust Deed and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be heard in mid-2020.
- On 26 October 2018 the High Court provided a ruling regarding guaranteed minimum pensions (GMPs) equalisation. The court ruled that pensions provided to members who had contracted-out of their scheme must be recalculated to ensure payments reflect the equalisation of state pension ages in the 1990s. The ruling provided pension trustees with a range of acceptable methods for calculating the GMP equalisation. The court also ruled that trustees are obliged to make arrears payments to members and simple interest on the arrears should be paid at 1% above the base rate. The estimated increase in pension liabilities required to equalise for GMPs is £19m.
- The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 3.1 for further details.
- The impairment of short leasehold and unlicensed properties comprises an impairment charge, where their carrying values exceed their recoverable amount, net of an impairment reversal where carrying values have been increased to the recoverable amounts. See note 3.1 for further details.
- A revaluation uplift, which reverses a previous impairment, has been recognised on reclassification of property, plant and equipment to assets held for sale at the interim date. These assets have been disposed of during the second half of the financial period.

2.3 REVENUE AND OPERATING COSTS

Accounting policy

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenue – food and drink

The majority of revenue comprises food and drinks sold in the Group's outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet. Payment of the transaction price is due immediately at the point the customer makes a purchase. Revenue excludes sales-based taxes, coupons and discounts.

Revenue – services

Revenue for services mainly represents income from gaming machines, hotel accommodation and rent receivable from unlicensed and leased operations. Revenue for gaming machines and hotel accommodation is recognised at the point the service is provided and excludes sales-based taxes and discounts.

Rental income is received from operating leases where the Group acts as lessor for a number of unlicensed and leased operations. Income from these leases is recognised on a straight-line basis over the term of the lease.

Operating profit

Operating profit is stated after charging adjusted items but before investment income and finance costs.

Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in other receivables.

Operating leases – Group as lessee

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

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

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

Revenue is analysed as follows:

	2019 52 weeks £m	2018 52 weeks £m
Food	1,137	1,092
Drink	1,025	991
Services	75	69
	2,237	2,152

Revenue from services includes rent receivable from unlicensed properties and leased operations of £10m (2018 £9m).

Operating costs are analysed as follows:

	2019 52 weeks £m	2018 52 weeks £m
Raw materials and consumables recognised as an expense ^a	574	564
Changes in inventory of finished goods and work in progress	–	(1)
Employee costs	721	676
Hire of plant and machinery	23	23
Property operating lease costs	59	63
Other costs	424	405
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio before separately disclosed items	1,801	1,730
Other adjusted items (note 2.2)	19	6
	1,820	1,736
Net profit arising on property disposals	(1)	(1)
Depreciation of property, plant and equipment (note 3.1)	116	116
Amortisation of intangible assets (note 3.4)	3	3
Net movement in the valuation of the property portfolio (note 3.1)	2	43
Depreciation, amortisation and movements in the valuation of the property portfolio	121	162
Total operating costs	1,940	1,897

a. Supplier incentives are included as a reduction to the raw materials and consumables expense. These are not disclosed separately as the value is immaterial.

2.3 REVENUE AND OPERATING COSTS CONTINUED

Employee costs

	2019 52 weeks £m	2018 52 weeks £m
Wages and salaries	656	620
Share-based payments (note 4.6)	3	3
Total wages and salaries	659	623
Social security costs	50	45
Pensions (note 4.5)	12	8
Total employee costs	721	676

The average number of employees including part-time employees was 44,521 retail employees (2018 43,777) and 1,039 support employees (2018 1,025).

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 76 to 97.

Operating leases

Operating lease commitments – Group as lessee

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

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

	2019 £m	2018 £m
Due within one year	47	55
Between one and five years	198	196
After five years	433	419
	678	670

Operating lease receivables – Group as lessor

The Group leases a small proportion of its unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

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

	2019 £m	2018 £m
Due within one year	9	8
Between one and five years	27	26
After five years	52	45
	88	79

The total value of future minimum sublease rental receipts included above is £39m. £3m of sublease income has been derecognised as rental income in the Group income statement in the period.

Auditor remuneration

	2019 52 weeks £m	2018 52 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated financial statements	0.2	0.1
– audit of the Company's subsidiaries' financial statements	0.3	0.3
Total audit fees	0.5	0.4
Other fees to auditor:		
– audit related assurance services	0.1	0.1
Total non-audit fees	0.1	0.1

Auditor's remuneration of £0.4m (2018 £0.3m) was paid in the UK and £0.1m (2018 £0.1m) was paid in Germany.

2.4 TAXATION

Accounting policies

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Taxation – Group income statement

	2019 52 weeks £m	2018 52 weeks £m
Current tax:		
– UK corporation tax	(31)	(28)
– Amounts over provided in prior periods	3	2
Total current tax charge	(28)	(26)
Deferred tax:		
– Origination and reversal of temporary differences	(5)	–
– Adjustments in respect of prior periods	(1)	–
Total deferred tax charge	(6)	–
Total tax charged in the Group income statement	(34)	(26)
Further analysed as tax relating to:		
Profit before adjusted items	(38)	(33)
Adjusted items	4	7
	(34)	(26)

The standard rate of corporation tax applied to the reported profit is 19.0% (2018 19.0%).

The tax charge in the Group income statement for the period is equal to (2018 higher than) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2019 52 weeks £m	2018 52 weeks £m
Profit before tax	177	130
Taxation charge at the UK standard rate of corporation tax of 19.0% (2018 19.0%)	(34)	(25)
Expenses not deductible	(2)	(4)
Income not taxable	1	2
Adjustments in respect of prior periods	2	2
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1)	(1)
Total tax charge in the Group income statement	(34)	(26)

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

2.4 TAXATION CONTINUED

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	1	1
Retirement benefit obligations	(4)	(6)
Depreciated non-qualifying assets	–	1
Unrealised gains on revaluations	(1)	5
Tax losses – UK	(2)	(2)
Tax losses – overseas	(1)	1
Share-based payments	1	–
Total deferred tax charge in the Group income statement	(6)	–

Taxation – other comprehensive income

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised (gains)/losses due to revaluations – revaluation reserve	(14)	1
– Unrealised gains due to revaluations – retained earnings	(1)	–
– Remeasurement of pension liability	(3)	(1)
	(18)	–
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges:		
– (Losses)/gains arising during the period	14	(3)
– Reclassification adjustments for items included in profit or loss	(4)	(5)
	10	(8)
Total tax charge recognised in other comprehensive income	(8)	(8)

Tax relating to items recognised directly in equity

	2019 52 weeks £m	2018 52 weeks £m
Deferred tax:		
– Tax credit related to share-based payments	2	–

Taxation – Group balance sheet

The deferred tax assets and liabilities recognised in the Group balance sheet are shown below:

	2019 £m	2018 £m
Deferred tax asset:		
Retirement benefit obligations (note 4.5)	36	43
Derivative financial instruments	52	42
Tax losses – UK	4	6
Tax losses – overseas	–	1
Share-based payments	4	2
Total deferred tax asset	96	94
Deferred tax liability:		
Accelerated capital allowances	(30)	(31)
Rolled over and held over gains	(112)	(112)
Unrealised gains on revaluations	(186)	(170)
Depreciated non-qualifying assets	(3)	(3)
Total deferred tax liability	(331)	(316)
Total	(235)	(222)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets and income tax liabilities and when it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities have been offset and disclosed in the Group balance sheet as follows:

	2019 £m	2018 £m
Deferred tax asset	66	63
Deferred tax liability	(301)	(285)
Net deferred tax liability	(235)	(222)

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £87m in respect of unclaimed capital allowances (2018 £87m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £15m (2018 £15m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

The Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The effect of these changes has been reflected in the closing deferred tax balances at 28 September 2019 and 29 September 2018.

2.5 EARNINGS PER SHARE

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

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

Adjusted earnings per ordinary share amounts are presented before adjusted items (see note 2.2) in order to allow a better understanding of the adjusted trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 28 September 2019:			
Profit/EPS	143	33.5p	33.3p
Adjusted items, net of tax	16	3.7p	3.8p
Adjusted profit/EPS ^a	159	37.2p	37.1p
52 weeks ended 29 September 2018:			
Profit/EPS	104	24.5p	24.4p
Adjusted items, net of tax	41	9.6p	9.6p
Adjusted profit/EPS ^a	145	34.1p	34.0p

a. Adjusted profit and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 156 to 158 of this report.

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

	2019 52 weeks £m	2018 52 weeks £m
For basic EPS calculations	427	425
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	1	2
– Other share options	1	–
For diluted EPS calculations	429	427

At 28 September 2019, 782,078 (2018 2,746,844) 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.

3.1 PROPERTY, PLANT AND EQUIPMENT

Accounting policies

Property, plant and equipment

The majority of the Group's freehold and long leasehold licensed land and buildings are revalued annually and are therefore held at fair value less depreciation.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and fixtures, fittings and equipment are held at cost less depreciation and impairment.

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

Depreciation

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each year and adjusted if appropriate.

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each year and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures, fittings and equipment, are depreciated over the shorter of the estimated useful life and the unexpired term of the lease.

Fixtures, fittings and equipment have the following estimated useful lives:

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

At the point of transfer to non-current assets held for sale, depreciation ceases. Should an asset be subsequently reclassified to property, plant and equipment, the depreciation charge is calculated to reflect the cumulative charge had the asset not been reclassified.

Disposals

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

Revaluation

The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; estimates of fair maintainable trade (FMT); and estimated resale value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its associated resale value. Where sites have been impacted by expansionary capital investment in the preceding 12 months, FMT is taken as the post investment forecast, as the current year trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by the Directors and the third-party valuer.

Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, for example, due to low levels of income or location characteristics, a spot valuation is applied.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation deficit 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 the income statement. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Impairment

Short leasehold and unlicensed properties are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell and value in use. Any changes in outlet earnings, or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised in the income statement immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Critical accounting judgements

The revaluation methodology is determined using management judgement, with advice from third-party valuers. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of licensed land and buildings. Where sites have been impacted by expansionary capital investment in the preceding 12 months, management judgement is used to determine the most appropriate FMT. The FMT is taken as the post investment forecast, as the current year trading performance includes a period of closure.

Key sources of estimation uncertainty

The application of the valuation methodology requires two key sources of estimation uncertainty; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 124. The carrying value of properties to which these estimates apply is £4,343m (2018 £4,230m).

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 30 September 2017	3,953	1,118	5,071
Additions	39	125	164
Disposals ^a	(12)	(123)	(135)
Revaluation/(impairment)	(41)	(7)	(48)
At 29 September 2018	3,939	1,113	5,052
Additions	37	114	151
Transfer to assets held for sale	(12)	(2)	(14)
Disposals ^a	(2)	(158)	(160)
Revaluation/(impairment)	86	(4)	82
At 28 September 2019	4,048	1,063	5,111
Accumulated depreciation			
At 30 September 2017	78	564	642
Provided during the period	6	110	116
Disposals ^a	(10)	(122)	(132)
At 29 September 2018	74	552	626
Provided during the period	7	109	116
Transfer to assets held for sale	–	(1)	(1)
Disposals ^a	(2)	(156)	(158)
At 28 September 2019	79	504	583
Net book value			
At 28 September 2019	3,969	559	4,528
At 29 September 2018	3,865	561	4,426
At 30 September 2017	3,875	554	4,429

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

Certain assets with a net book value of £41m (2018 £43m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Included within property, plant and equipment are assets with a net book value of £3,881m (2018 £3,788m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 28 September 2019 includes £7m (2018 £18m) of assets in the course of construction.

Assets held for sale

During the first half of the financial period, a group of properties were classified as held for sale. At the interim date, 13 April 2019, the net book value of these properties was £13m. A revaluation uplift of £7m was recognised to increase the carrying value of these assets to the fair value less costs to sell. The revaluation uplift has been recognised in the Group income statement as it reverses a previously recognised impairment. The properties were sold during the second half of the financial period and therefore the value of assets held for sale remaining at 28 September 2019 is £nil.

3.1 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at fair value, as at 28 September 2019, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2017 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

Sensitivity analysis

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. The average movement in FMT of revalued properties in the past three years is 1.0%. It is estimated that, given the multiplier effect, a 1.0% change in the FMT of the freehold or long leasehold properties would generate an approximate £37m movement in their valuation.

Multiples are determined at an individual brand level. Over the last three years, the weighted average of all brand multiples has moved by an average of 0.1. It is estimated that a 0.1 change in the multiple, would generate an approximate £43m movement in valuation.

Impairment review of short leasehold and unlicensed properties

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

Current year valuations have been incorporated into the consolidated financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or Group income statement as appropriate. The impact of the revaluations/impairments described above is as follows:

	2019 52 weeks £m	2018 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	(76)	(89)
Reversal of past revaluation deficits	72	61
Total impairment arising from the revaluation	(4)	(28)
Impairment of short leasehold and unlicensed properties	(7)	(15)
Reversal of past impairments of short leasehold and unlicensed properties	2	–
Total impairment of short leasehold and unlicensed properties	(5)	(15)
Reversal of past impairment on transfer to assets held for sale	7	–
	(2)	(43)
Revaluation reserve		
Unrealised revaluation surplus	199	171
Reversal of past revaluation surplus	(115)	(176)
	84	(5)
Net increase/(decrease) in property, plant and equipment	82	(48)

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

The number of pubs included in the revaluation and the resulting valuation of these properties is reconciled to the total value of property, plant and equipment below.

28 September 2019	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
Freehold properties	1,331	3,603	433	4,036
Long leasehold properties	96	270	37	307
Total revalued properties	1,427	3,873	470	4,343
Short leasehold properties		77	80	157
Unlicensed properties		15	2	17
Other non-pub assets		1	3	4
Assets under construction		3	4	7
Total property, plant and equipment		3,969	559	4,528

29 September 2018	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
Freehold properties	1,336	3,507	428	3,935
Long leasehold properties	95	259	36	295
Total revalued properties	1,431	3,766	464	4,230
Short leasehold properties		77	79	156
Unlicensed properties		14	2	16
Other non-pub assets		3	3	6
Assets under construction		5	13	18
Total property, plant and equipment		3,865	561	4,426

a. The carrying value of freehold and long leasehold properties based on their historical cost (or deemed cost at transition to IFRS) is £2,657m and £190m respectively (2018 £2,635m and £186m).

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

28 September 2019	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	56	9	163	158	6	392
£200k to £360k pa	1	14	302	133	18	468
> £360k pa	1	59	430	61	16	567
	58	82	895	352	40	1,427

29 September 2018	Valuation multiple applied to FMT					Total
	Over 12 times	10 to 12 times	8 to 10 times	6 to 8 times	Under 6 times	
Number of pubs in each FMT income banding:						
< £200k pa	48	6	166	170	10	400
£200k to £360k pa	–	12	311	138	15	476
> £360k pa	3	54	414	65	19	555
	51	72	891	373	44	1,431

Year-on-year movements in valuation multiples are the result of changes in property market conditions. The average weighted multiple is 8.6 (2018 8.6).

In addition to the above, premiums paid on acquiring a new lease are classified separately in the Group balance sheet. At 28 September 2019 an amount of £1m (2018 £1m) was included in the Group balance sheet.

Capital commitments

	2019 £m	2018 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	19	24

3.2 WORKING CAPITAL

Inventories

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Inventories can be analysed as follows:

	2019 £m	2018 £m
Goods held for resale	26	26

Trade and other receivables

Accounting policy

Trade receivables and other receivables are initially recognised at fair value. Items are subsequently carried at amortised cost less an allowance for any lifetime expected credit losses (see financial assets impairment policy in note 4.4).

Trade and other receivables can be analysed as follows:

	2019 £m	2018 £m
Trade receivables	7	7
Other receivables	15	14
Prepayments	41	35
Total trade and other receivables	63	56

All amounts fall due within one year.

Trade receivables and other receivables are non-interest bearing. The Directors consider that the carrying amount of trade receivables and other receivables approximately equates to their fair value. A lifetime expected credit loss of £2m has been recognised against trade receivables and other receivables.

Credit risk is considered in note 4.4.

Trade and other payables

Accounting policy

Trade and other payables are initially recognised at fair value and recognised subsequently at amortised cost.

Trade and other payables can be analysed as follows:

	2019 £m	2018 £m
Trade payables	88	83
Other taxation and social security	78	64
Accrued charges	104	103
Other payables	57	52
Total trade and other payables	327	302

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

3.3 PROVISIONS

Accounting policy

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

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the lower of the net lease commitments (including rental costs and service charge) or the operating loss after rental costs and service charge. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

Critical accounting judgements

Determination of whether a loss is unavoidable requires areas of judgement such as consideration of potential future investment decisions or local conditions which may be impacting on current performance.

Provisions

The provision for unavoidable losses on onerous property leases has been set up to cover rental payments and service charge of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 24 years.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 30 September 2017	42	–	42
Released in the period ^a	(6)	–	(6)
Provided in the period	10	1	11
Unwinding of discount	1	–	1
Utilised in the period	(5)	–	(5)
At 29 September 2018	42	1	43
Released in the period ^a	(9)	(1)	(10)
Provided in the period	8	1	9
Unwinding of discount	1	–	1
Utilised in the period	(7)	–	(7)
At 28 September 2019	35	1	36

a. Releases in the current and prior period primarily relate to improvement in performance of managed properties.

3.4 GOODWILL AND OTHER INTANGIBLE ASSETS

Accounting policies

Business combinations and goodwill

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

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

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 30 September 2017	7	14	21
Additions	–	4	4
Disposals	–	(2)	(2)
At 29 September 2018	7	16	23
Additions	–	6	6
Disposals	–	(6)	(6)
At 28 September 2019	7	16	23
Accumulated amortisation and impairment			
At 30 September 2017	5	6	11
Provided during the period	–	3	3
Disposals	–	(2)	(2)
At 29 September 2018	5	7	12
Provided during the period	–	3	3
Disposals	–	(6)	(6)
At 28 September 2019	5	4	9
Net book value			
At 28 September 2019	2	12	14
At 29 September 2018	2	9	11
At 30 September 2017	2	8	10

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

Goodwill has been tested for impairment within each cash-generating-unit, on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 7.7% (2018 7.5%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 0.0% (2018 0.0%) growth per annum.

3.5 ASSOCIATES

Accounting policies

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. If after reassessment the Group's share of the net fair value of the identifiable assets and liabilities are in excess of the cost of the investment, this is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The nature of the activities of all of the Group's associates is trading in pubs and restaurants, which are seen as complementing the Group's operations and contributing to the Group's overall strategy.

Associates can be analysed as follows:

	£m
Cost	
At 30 September 2017	–
Additions	5
At 29 September 2018	5
Additions	–
At 28 September 2019	5

Associates relate to shareholdings in 3Sixty Restaurants Limited and Fatboy Pub Company Limited that were acquired in the prior period. Details of these associates are provided in note 5.2.

There have been no events or changes in circumstance during the current period to indicate that the carrying amount of the investments in associates may not be recoverable. As such, no impairment has been recognised.

During the prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m. The current shareholders also have the ability under the option to sell the remaining 60% to the Company, subject to a number of conditions. The fair value of this option at 28 September 2019 is £1m (2018 £nil). This has been recognised as a financial asset at FVTPL (see note 4.4) and the gain deferred and recognised over the three year option life.

4.1 NET DEBT

Accounting policy

Cash and cash equivalents

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

Net debt

Net debt comprises cash and cash equivalents and cash deposits, net of borrowings. Borrowings (as defined in note 4.2) are included in net debt on a constant currency basis including the fixed exchange rate component of the cross currency swap (as described in note 4.4). Cash flows on the interest rate and cross currency swaps are shown within interest paid in the Group cash flow statement.

Net debt

	2019 £m	2018 £m
Cash and cash equivalents	133	122
Other cash deposits	–	120
Securitised debt (note 4.2)	(1,752)	(1,830)
Liquidity facility (note 4.2)	–	(147)
Derivatives hedging securitised debt ^a (note 4.2)	55	47
	(1,564)	(1,688)

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US\$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt

	2019 52 weeks £m	2018 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	11	(25)
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	(120)	–
Repayment of principal in respect of securitised debt	87	82
Repayment of liquidity facility	147	–
Net movement on unsecured revolving facilities	–	6
Decrease in net debt arising from cash flows	125	63
Movement in capitalised debt issue costs net of accrued interest	(1)	(1)
Decrease in net debt	124	62
Opening net debt	(1,688)	(1,750)
Closing net debt	(1,564)	(1,688)

The net debt movement for the 52 weeks ended 28 September 2019 is represented by:

	At 29 September 2018 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 28 September 2019 £m
Securitised debt	(1,830)	87	(1)	(8)	(1,752)
Liquidity facility	(147)	147	–	–	–
Derivatives hedging securitised debt	47	–	–	8	55
Total liabilities arising from financing activities	(1,930)	234	(1)	–	(1,697)
Cash and cash equivalents	122	11	–	–	133
Other cash deposits	120	(120)	–	–	–
Net debt	(1,688)	125	(1)	–	(1,564)

The net debt movement for the 52 weeks ended 29 September 2018 is represented by:

	At 30 September 2017 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 29 September 2018 £m
Securitised debt	(1,909)	82	(1)	(2)	(1,830)
Liquidity facility	(147)	–	–	–	(147)
Revolving credit facilities	(6)	6	–	–	–
Derivatives hedging securitised debt	45	–	–	2	47
Total liabilities arising from financing activities	(2,017)	88	(1)	–	(1,930)
Cash and cash equivalents	147	(25)	–	–	122
Other cash deposits	120	–	–	–	120
Net debt	(1,750)	63	(1)	–	(1,688)

4.2 BORROWINGS

Accounting policy

Borrowings, which include the Group's secured loan notes, are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2019 £m	2018 £m
Current		
Securitised debt ^{a,b}	95	86
Liquidity facility	–	147
Total current	95	233
Non-current		
Securitised debt ^{a,b}	1,657	1,744
Total borrowings	1,752	1,977

- a. Further details of the assets pledged as security against the securitised debt are given on page 123.
b. Stated net of deferred issue costs.

	2019 £m	2018 £m
Analysis by year of repayment		
Due within one year or on demand	95	233
Due between one and two years	158	142
Due between two and five years	347	328
Due after five years	1,152	1,274
Total borrowings	1,752	1,977

Securitised debt

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

The loan notes consist of 10 tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding		Expected WAL ^a
					28 September 2019 £m	29 September 2018 £m	
A1N	200	Floating	2011 to 2028	6.21 ^b	121	131	5 years
A2	550	Fixed–5.57%	2003 to 2028	6.01	220	240	5 years
A3N	250	Floating	2011 to 2028	6.29 ^b	152 ^c	165 ^c	5 years
A4	170	Floating	2016 to 2028	5.97 ^b	139	150	5 years
AB	325	Floating	2020 to 2032	6.28 ^b	325	325	9 years
B1	350	Fixed–5.97%	2003 to 2023	6.12	84	102	2 years
B2	350	Fixed–6.01%	2015 to 2028	6.12	297	312	6 years
C1	200	Fixed–6.47%	2029 to 2030	6.56	200	200	10 years
C2	50	Floating	2033 to 2034	6.47 ^b	50	50	14 years
D1	110	Floating	2034 to 2036	6.68 ^b	110	110	16 years
	2,555				1,698	1,785	

- a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.
b. After the effect of interest rate swaps.
c. A3N notes are US\$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £207m (2018 £212m). Therefore the exchange difference on the A3N notes is £55m (2018 £47m).

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

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

Tranche	Interest	Margin
A1N	3 month LIBOR	0.45%
A3N	3 month US\$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.2% (2018 6.2%) after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A and AB notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies. At 28 September 2019, Mitchells & Butlers Retail Limited had cash and cash equivalents of £61m (2018 £54m). Of this amount £1m (2018 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

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

	2019 £m	2018 £m
Principal outstanding at beginning of period	1,832	1,911
Principal repaid during the period	(87)	(82)
Exchange on translation of dollar loan notes	8	3
Principal outstanding at end of period	1,753	1,832
Deferred issue costs	(4)	(5)
Accrued interest	3	3
Carrying value at end of period	1,752	1,830

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties. As a result of the decrease in credit rating of one of the counterparties, the Group was obliged to draw that counterparty's portion of the facility during the 52 weeks ended 27 September 2014. During the period the Group novated part of the facility to a higher rated counterparty and repaid the amount drawn. The amount drawn at 28 September 2019 is £nil (2018 £147m).

The facility, which is not available for any other purpose, is sized to cover 18 months debt service.

Unsecured revolving credit facilities

The Group holds three unsecured committed revolving credit facilities of £50m each, and uncommitted revolving credit facilities of £15m, available for general corporate purposes. The amount drawn at 28 September 2019 is £nil (2018 £nil). All committed facilities expire on 31 December 2020.

4.3 FINANCE COSTS AND REVENUE

	2019 52 weeks £m	2018 52 weeks £m
Finance costs		
Interest on securitised debt	(109)	(114)
Interest on other borrowings	(4)	(4)
Unwinding of discount on provisions (note 3.3)	(1)	(1)
Total finance costs	(114)	(119)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 4.5)	(7)	(7)

4.4 FINANCIAL INSTRUMENTS

Accounting policies

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

Financial assets

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

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets, where applicable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Group adopts the simplified approach detailed in IFRS 9 for trade receivables and other receivables and therefore recognises lifetime ECL on these assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

The Group has financial liabilities relating to borrowings, for which the accounting policy is provided in note 4.2. Other financial liabilities are initially measured at fair value, net of transaction costs.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both the current legal right to offset and intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

4.4 FINANCIAL INSTRUMENTS CONTINUED

Hedge accounting

The Group designates its derivative financial instruments, i.e. interest rate and currency swaps, as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued only when the hedging relationship ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold or terminated. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

Financial risk management

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

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

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

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with three committed unsecured revolving credit facilities of £50m each. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £15m.

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

The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest and exchange rates, for the Group's financial liabilities, after taking into account the effect of interest rate and currency swaps and assumes no early redemption in respect of any loan notes.

	Within one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
28 September 2019							
Securitised debt – loan notes	(171)	(175)	(177)	(179)	(180)	(1,381)	(2,263)
Cash flow hedges	(27)	(26)	(24)	(21)	(20)	(106)	(224)
Fixed rate: Securitised debt	(198)	(201)	(201)	(200)	(200)	(1,487)	(2,487)
Trade and other payables	(327)	–	–	–	–	–	(327)
29 September 2018							
Securitised debt – loan notes	(165)	(170)	(174)	(176)	(177)	(1,554)	(2,416)
Cash flow hedges	(30)	(28)	(27)	(25)	(23)	(133)	(266)
Fixed rate: Securitised debt	(195)	(198)	(201)	(201)	(200)	(1,687)	(2,682)
Floating rate: Liquidity facility	(147)	–	–	–	–	–	(147)
Trade and other payables	(302)	–	–	–	–	–	(302)

Credit risk

The Group Treasury function enters into contracts with third parties in respect of derivative financial instruments for risk management purposes and the investment of surplus funds. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term). Counterparties may also be required to post collateral with the Group, where their credit rating falls below a predetermined level. The amount that can be invested or transacted at various ratings levels is restricted under the policy. To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four-weekly basis.

Credit risk is on trade receivables and other receivables is considered to be a low-level risk. Trade receivables and other receivables mainly represent amounts due from tenants of unlicensed properties, amounts due from Group suppliers and cash collateral deposits held by third parties.

Credit exposure relating to tenants is considered to be low risk, with an expected lifetime credit loss calculated at the period end to reflect the risk of irrecoverable amounts. To minimise credit risk new tenants are assessed using an external credit rating system before they are approved for tenancy. Credit exposure is reduced for the amounts due from Group suppliers as the Group holds offsetting amounts in trade and other payables that are due to some of these suppliers. Credit risk on cash collateral deposits held by third parties are considered to be low credit risk as they are held with reputable banking institutions by third parties.

The Group's credit exposure at the balance sheet date was:

	FVTPL 2019 £m	12 month ECL 2019 £m	Lifetime ECL 2019 £m	Total 2019 £m	Total 2018 £m
Cash and cash equivalents	–	133	–	133	122
Other cash deposits	–	–	–	–	120
Trade receivables	–	–	7	7	7
Other receivables	–	–	15	15	14
Derivatives	56	–	–	56	48

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.1) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.2). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the year, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Chief Financial Officer is also a member of the Committee.

Total capital at the balance sheet date is as follows:

	2019 £m	2018 £m
Net debt (note 4.1)	1,564	1,688
Total equity	1,947	1,769
Total capital	3,511	3,457

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS CONTINUED

4.4 FINANCIAL INSTRUMENTS CONTINUED

Market risk

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

Foreign currency risk

The most significant currency risk the Group faces is in relation to the class A3N floating rate notes. At issuance of these notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. The A3N notes have a carrying value of £207m (2018 £212m) and form part of the securitised debt (see note 4.2).

Sensitivity analysis

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ finance costs. A movement of 10% in the US\$ exchange rate would have £nil (2018 £nil) impact on the reported Group profit and £21m (2018 £21m) impact on the reported Group equity.

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 consolidated financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Group's £1.8bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

Sensitivity analysis

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. A 1% movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of this reasonably possible change in interest rates.

For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period.

The Group's sensitivity to a 1% increase in interest rates is detailed below:

	2019 £m	2018 £m
Interest income ^a	1	2
Interest expense ^b	–	(1)
Profit impact	1	1
Derivative financial instruments (fair values) ^c	72	76
Total equity	73	77

a. Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1).

b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.

c. The impact on total equity from movements in the fair value of cash flow hedges.

Derivative financial instruments

Cash flow hedges

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

	2019 £m	2018 £m
(Losses)/gains arising during the period	(81)	16
Reclassification adjustments for losses included in profit or loss	23	34
	(58)	50

Cash flow hedges – securitised borrowings

At 28 September 2019, the Group held ten (2018 ten) interest rate swap contracts with a nominal value of £897m (2018 £931m), designated as a hedge of the cash flow interest rate risk of £897m (2018 £931m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes.

The cash flows on these contracts occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8399% (2018 4.8483%). The contract maturity dates match those of the hedged item. The ten interest rate swaps are held on the Group balance sheet at fair market value, which is a liability of £302m (2018 £244m).

At 28 September 2019 the Group held one (2018 one) cross currency interest rate swap contract, with a nominal value of £152m (2018 £165m), designated as a hedge of the cash flow interest rate and currency risk of the Group's US\$ denominated A3N floating rate \$254m (2018 \$276m) notes. The cross currency interest rate swap is held on the Group balance sheet at a fair value asset of £55m (2018 £48m).

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

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually.

Share options

During the prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m (see note 3.5). The current shareholders also have the ability under the option to sell the remaining 60% to the company, subject to a number of conditions. The fair value of this option at 28 September 2019 is £1m (2018 £nil). This has been recognised as a financial asset and the gain deferred and recognised over the three year option life.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 28 September 2019 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				Total £m
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	
Cash flow hedges at FVTOCI:					
– Interest rate swaps	–	–	(36)	(266)	(302)
– Cross currency swap	52	3	–	–	55
Share options at FVTPL	1	–	–	–	1
28 September 2019	53	3	(36)	(266)	(246)
29 September 2018	44	4	(37)	(207)	(196)

Reconciliation of movements in derivative values

The tables below details changes in the Group's derivatives, including both cash and non-cash changes where appropriate. Changes in the Group's borrowings are disclosed in the net debt reconciliation in note 4.1.

Movements in derivative values for the 52 weeks ended 28 September 2019 are represented by:

	At 29 September 2018 £m	Cash movements £m	Fair value adjustments £m	At 28 September 2019 £m
Cash flow hedges	(196)	31	(82)	(247)
Share options	–	–	1	1
Total derivatives	(196)	31	(81)	(246)

Movements in derivative values for the 52 weeks ended 29 September 2018 are represented by:

	At 30 September 2017 £m	Cash movements £m	Fair value adjustments £m	At 29 September 2018 £m
Cash flow hedges	(249)	37	16	(196)
Total derivatives	(249)	37	(16)	(196)

4.4 FINANCIAL INSTRUMENTS CONTINUED

Fair value of financial assets and liabilities

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

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	133	133	122	122
– Other cash deposits	–	–	120	120
– Trade and other receivables	7	7	7	7
– Other receivables	15	15	14	14
Financial assets – derivatives:				
– Derivative instruments in designated hedge accounting relationships	55	55	48	48
– Share options	1	1	–	–
Financial liabilities at amortised cost:				
– Borrowings (note 4.2)	(1,752)	(1,695)	(1,977)	(1,939)
– Trade and other payables	(88)	(88)	(83)	(83)
– Other taxation and social security	(78)	(78)	(64)	(64)
– Other payables	(57)	(57)	(52)	(52)
– Accrued charges	(104)	(104)	(103)	(103)
Financial liabilities – derivatives:				
– Derivative instruments in designated hedge accounting relationships	(302)	(302)	(244)	(244)
	(2,170)	(2,113)	(2,212)	(2,174)

Borrowings have been valued as level 1 financial instruments, as the various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. These amounts are based on quotations from counterparties which approximate to their fair market value and take into consideration interest and exchange rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Fair value of derivative financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:

- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

The table below sets out the valuation basis of derivative financial instruments held at fair value by the Group:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value at 28 September 2019				
Financial assets:				
Currency swaps	–	55	–	55
Share options	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(302)	–	(302)
	–	(247)	1	(246)
Fair value at 29 September 2018				
Financial assets:				
Currency swaps	–	48	–	48
Financial liabilities:				
Interest rate swaps	–	(244)	–	(244)
	–	(196)	–	(196)

4.5 PENSIONS

Accounting policy

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

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

As the Company does not have an unconditional right to recover any surplus from the pension plans, IFRIC 14 requires the minimum funding liability to be recognised, where it is in excess of the actuarial liability. As such, the total pension liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liability. The actuarial liability is the present value of the defined benefit obligation, less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the scheme are recognised within operating costs in the income statement.

Re-measurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on scheme assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

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

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

Critical accounting judgements

The calculation of the defined benefit liability requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities.

In addition, management have used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. Details of this are given below.

Measurement of scheme assets and liabilities

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' independent qualified actuaries to 28 September 2019. Scheme assets are stated at market value at 28 September 2019 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the scheme liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

In relation to the MABPP, the Trust Deed and Rules provide that it is a matter for the Company to determine the rate of inflation which should be applied to pension increases for certain sections of the membership in excess of guaranteed minimum pensions and the Company has instructed the Trustee to apply CPI (subject to certain caps) in respect of such increases. The Trustee believes that this power was incorrectly vested in the Company in the Trust Deed and Rules of the MABPP in 1996 and, despite it being reflected in further versions, has made an application to court for those various Trust Deeds and Rules to be rectified. It is the Board's belief that the Company holds the power to fix such an inflation index and the Company is therefore contesting that application. The hearing is expected to be held in mid-2020. The actuarial surplus as determined under IAS 19 (revised) has continued to be calculated using RPI, pending final resolution of the matter. The applicable rate of CPI at 28 September 2019 is 2.1%. Leaving all other principal financial assumptions constant, the impact of this change on the defined benefit obligation as measured under IAS 19 (revised) is estimated to be a reduction of £165m. However (under IFRIC 14) an additional liability is recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023. As such should the Company be successful in contesting the application there will be no necessary movement in the total balance sheet position.

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	2019		2018	
	Main plan	Executive plan	Main plan	Executive plan
Discount rate ^a	1.8%	1.8%	2.9%	2.9%
Pensions increases – RPI max 5%	3.0%	3.0%	3.0%	3.0%
Inflation rate – RPI	3.1%	3.1%	3.2%	3.2%

a. The discount rate is based on a yield curve for AA corporate rated bonds which are consistent with the currency and estimated term of retirement benefit liabilities.

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CONTINUED

4.5 PENSIONS CONTINUED

The mortality assumptions were reviewed following the 2019 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2019		2018	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	20.9	23.4	21.2	23.9
Male member aged 45 (life expectancy at 65)	22.7	24.5	23.0	25.6
Female member aged 65 (current life expectancy)	23.2	24.3	23.6	26.0
Female member aged 45 (life expectancy at 65)	25.3	26.3	25.5	27.9

Minimum funding requirements

The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, the Company has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). Under IFRIC 14, an additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

The employer contributions expected to be paid during the financial period ending 27 September 2020 amount to £50m.

In 2024, an additional payment of £13m will be made into escrow, should such further funding be required at that time. This is a contingent liability and is not reflected in the pensions liability as it is not committed.

Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below.

	Increase or (decrease) in actuarial surplus 2019 £m	Decrease or (increase) in total pension liability 2019 £m
2019		
0.5% increase in discount rate ^a	207	5
0.1% increase in inflation rate	(41)	(1)
Additional one-year decrease to life expectancy	90	2
	Increase or (decrease) in actuarial surplus 2018 £m	Decrease or (increase) in total pension liability 2018 £m
2018		
0.5% increase in discount rate ^a	37	1
0.1% increase in inflation rate	(34)	(1)
Additional one-year decrease to life expectancy	72	1

a. The discount rate sensitivity disclosed for 2019 is a higher sensitivity of 0.5%, compared to 0.1% in 2018. This has increased to reflect a reasonably possible change in discount rate as a result of volatility in the discount rate in recent years.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

Principal risks and assumptions

The defined benefit schemes are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – the majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts and other inflation linked assets.

Interest rate – The plans' liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the plans.

Mortality – The majority of the obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the Group balance sheet for the plans which in addition will also impact the pension finance charge in the Group income statement.

Amounts recognised in respect of defined benefit schemes

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income:

Group income statement

	2019 52 weeks £m	2018 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(12)	(8)
Administrative costs (defined benefit plans)	(3)	(2)
Charge to operating profit before adjusted items	(15)	(10)
Past service cost (see note 2.2)	(19)	–
Charge to operating profit	(34)	(10)
Finance costs:		
Net pensions finance income on actuarial surplus	10	5
Additional pensions finance charge due to minimum funding	(17)	(12)
Net finance charge in respect of pensions	(7)	(7)
Total charge	(41)	(17)

Group statement of comprehensive income

	2019 52 weeks £m	2018 52 weeks £m
Return on scheme assets and effects of changes in assumptions	(77)	114
Movement in pension liability recognised due to minimum funding	92	(109)
Remeasurement of pension liability	15	5

Group balance sheet

	2019 £m	2018 £m
Fair value of scheme assets	2,739	2,404
Present value of scheme liabilities	(2,443)	(2,068)
Actuarial surplus in the schemes	296	336
Additional liability recognised due to minimum funding	(511)	(585)
Total pension liability ^a	(215)	(249)
Associated deferred tax asset	36	43

a. The total pension liability of £215m (2018 £249m) is presented as a £50m current liability (2018 £49m) and a £165m non-current liability (2018 £200m).

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SECTION 4 – CAPITAL STRUCTURE AND FINANCING COSTS
CONTINUED

4.5 PENSIONS CONTINUED

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

	Scheme assets	
	2019 £m	2018 £m
Fair value of scheme assets at beginning of period	2,404	2,390
Interest income	69	63
Remeasurement gain:		
– Return on scheme assets (excluding amounts included in net finance charge)	312	23
Additional employer contributions	49	48
Benefits paid	(92)	(118)
Administration costs	(3)	(2)
At end of period	2,739	2,404

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

	Defined benefit obligation	
	2019 £m	2018 £m
Present value of defined benefit obligation at beginning of period	(2,068)	(2,219)
Interest cost	(59)	(58)
Past service cost	(19)	–
Benefits paid	92	118
Remeasurement losses:		
– Effect of changes in demographic assumptions	26	–
– Effect of changes in financial assumptions	(420)	100
– Effect of experience adjustments	5	(9)
At end of period ^a	(2,443)	(2,068)

a. The defined benefit obligation comprises £38m (2018 £33m) relating to the MABETUS unfunded plan and £2,405m (2018 £2,035m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 19 years (2018 20 years).

The major categories and fair values of assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2019 £m	2018 £m
Cash and equivalents	109	111
Equity instruments	502	626
Debt instruments:		
– Bonds	2,481	1,513
– Real estate debt	75	76
– Infrastructure debt	118	95
– Secured income debt	158	80
– Absolute return bond funds	233	202
– Gilt repurchase transactions	(950)	(303)
Gold	8	8
Forward foreign exchange contracts	5	(4)
Fair value of assets	2,739	2,404

The actual investment return achieved on the scheme assets over the period was 16.0% (2018 4.3%), which represented a gain of £381m (2018 £86m).

Virtually all equity instruments, bonds and gold have quoted prices in active markets and are classified as Level 1 instruments. Absolute return bond funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments. Real estate debt and infrastructure debt are classified as Level 3 instruments.

In the 52 weeks ended 28 September 2019 the Group paid £11m (2018 £7m) in respect of the defined contribution arrangements, with an additional £3m (2018 £2m) outstanding as at the period end.

At 28 September 2019 the MABPP owed £1m (2018 £1m) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

4.6 SHARE-BASED PAYMENTS

Accounting policy

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

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

Schemes in operation

The net charge recognised for share-based payments in the period was £3m (2018 £3m).

The Group had four equity-settled share schemes (2018 four) in operation during the period; the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP).

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 76 to 97.

The following tables set out weighted average information about how the fair value of each option grant was calculated:

Valuation model	2019		2018	
	Performance Restricted Share Plan	Sharesave Plan	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Monte Carlo and Binomial	Black-Scholes	Monte Carlo and Binomial	Black-Scholes
Weighted average share price	272.4p	281.5p	259.2p	264.2p
Exercise price ^a	–	242.0p	–	246.0p
Expected dividend yield ^b	–	0%	–	1.97%
Risk-free interest rate	0.79%	0.59%	0.68%	0.86%
Volatility ^c	31.4%	30.49%	32.5%	31.0%
Expected life (years) ^d	3.0	4.0	2.4	4.0
Weighted average fair value of grants during the period	240.3p	87.0p	224.2p	61.3p

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

b. The expected dividend yield for the Sharesave Plan has used historical dividend information. For details on the Group's current dividend policy refer to the Financial review on page 48. The expected dividend yield for the Performance Restricted Share Plan options is zero as participants are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period.

c. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.

d. The expected life of the options represents the average length of time between grant date and exercise date.

The fair value of awards under the Short Term Deferred Incentive Plan and the Share Incentive Plan are equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. The assumptions set out above are therefore not relevant to these schemes. The fair value of options granted under the Share Incentive Plan during the period was 281.5p (2018 264.2p). The fair value of options granted under the Short Term Deferred Incentive Plan during the period was 272.4p (2018 260.6p).

The tables below summarise the movements in outstanding options during the period.

	Number of shares		Weighted average exercise price	
	2019 m	2018 m	2019 p	2018 p
Sharesave plan				
Outstanding at the beginning of the period	4.1	4.1	256.0	264.1
Granted	2.0	1.3	242.0	246.0
Exercised	–	(0.1)	230.9	182.2
Forfeited	(0.7)	(0.8)	246.2	257.3
Expired	(0.4)	(0.4)	348.0	323.5
Outstanding at the end of the period	5.0	4.1	244.0	256.0
Exercisable at the end of the period	–	–	–	–

The outstanding options for the SAYE scheme had an exercise price of between 221.0p and 362.0p (2018 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.8 years (2018 2.8 years). The number of forfeited shares in the period includes 400,999 (2018 545,646) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 284.4p (2018 258.4p).

4.6 SHARE-BASED PAYMENTS CONTINUED

	Number of shares	
	2019 m	2018 m
Share Incentive Plan		
Outstanding at the beginning of the period	1.8	1.7
Granted	0.4	0.4
Exercised	(0.2)	(0.2)
Forfeited	(0.1)	(0.1)
Outstanding at the end of the period	1.9	1.8
Exercisable at the end of the period	0.9	0.8

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares	
	2019 m	2018 m
Performance Restricted Share Plan		
Outstanding at the beginning of the period	6.1	5.2
Granted	2.1	2.2
Forfeited	(0.1)	(0.2)
Expired	(1.9)	(1.1)
Outstanding at the end of the period	6.2	6.1
Exercisable at the end of the period	–	–

The exercise price for the Performance Restricted Share Plan is £1 per participating employee, therefore the weighted average exercise price for these options is £nil (2018 £nil).

Options outstanding at 28 September 2019 had an exercise price of £nil and a weighted average remaining contractual life of 3.2 years (2018 3.2 years).

4.7 EQUITY

Accounting policies

Own shares

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

Dividends

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

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

Called up share capital

	2019		2018	
	Number of shares	£m	Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of 8 ¹³ / ₂₄ p each				
At start of period	428,310,823	37	422,548,604	36
Share capital issued ^a	266,937	–	5,762,219	1
At end of period	428,577,760	37	428,310,823	37

a. The Company issued 266,937 (2018 407,602) shares during the period under share option schemes for a consideration of £nil (2018 £nil). In addition, under the terms of the Company's scrip dividend scheme, shareholders are able to elect to receive ordinary shares in place of both interim and final dividends. In the prior period, this resulted in the issue of 5,354,617 new fully paid ordinary shares in relation to the final dividend for the 53 weeks ended 30 September 2017. There were no dividends declared in the current period.

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

Details of options granted under the Group's share schemes, are contained in note 4.6.

Dividends

Declared and paid in the period

There were no dividends declared or paid during the current period. Dividends declared and paid in the prior period are as follows:

	2018		
	Cash dividend £m	Settled via scrip £m	Total dividend £m
Final dividend of 5.0p per share – 53 weeks ended 30 September 2017	7	14	21
	7	14	21

The final dividend of 5.0p per ordinary share declared in relation to the 53 weeks ended 30 September 2017 was approved at the Annual General Meeting on 23 January 2018 and was paid to shareholders on 6 February 2018. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £14m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 264.4p per share, resulting in the issue of 5 million new shares, fully paid up from the share premium account. The nominal value of the 5 million shares issued in relation to the final scrip dividends is £1m.

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £nil has been recognised on shares issued in the period (2018 £1m).

Capital redemption reserve

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

Revaluation reserve

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

Own shares held

Own shares held by the Group represent the shares in the Company held by the employee share trusts.

During the period, the employee share trusts acquired 900,000 shares (2018 nil) and subscribed for 257,587 (2018 296,144) shares at a cost of £3m (2018 £nil) and released 226,936 (2018 159,956) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2018 £nil). The 2,815,781 shares held by the trusts at 28 September 2019 had a market value of £11m (2018 1,885,130 shares held had a market value of £5m).

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 28 September 2019, the trustees, Equiniti Share Plan Trustees Limited, held 1,904,568 (2018 1,847,623) shares in the Company. Of these shares, 577,636 (2018 583,410) shares are unconditionally available to employees, 315,333 (2018 245,415) shares have been conditionally awarded to employees, 987,565 (2018 982,143) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 24,034 (2018 36,655) 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 Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 28 September 2019, the trustees, Sanne Fiduciary Services Limited, were holding 911,213 (2018 37,507) shares in the Company.

Hedging reserve

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

Translation reserve

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

Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,313m at 28 September 2019 (2018 £2,199m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.2).

5.1 RELATED PARTY TRANSACTIONS

Key management personnel

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

Compensation of key management personnel of the Group:

	2019 52 weeks £m	2018 52 weeks £m
Short-term employee benefits	5	4

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration.

Associate companies

During the period, the Group has held a number of property lease agreements with its associate companies, 3Sixty Restaurants Limited and Fatboy Pub Company Limited.

Since becoming associates of the Group, the Group has entered into the following transactions with the associates:

	3Sixty Restaurants Limited		Fatboy Pub Company Limited	
	2019 52 weeks £000	2018 52 weeks £000	2019 52 weeks £000	2018 52 weeks £000
Rent charged	372	29	75	–
Sales of goods and services	646	48	4	48
Loans	–	–	175	–
	1,018	77	254	48

The balance due from 3Sixty Restaurants Limited at 28 September 2019 was £102,000 (2018 £35,000).

The balance due from Fatboy Pub Company at 28 September 2019 was £186,000 (2018 £nil).

5.2 SUBSIDIARIES AND ASSOCIATES

Subsidiaries

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

Mitchells & Butlers plc is the ultimate controlling party and the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Name of subsidiary	Country of incorporation	Registration number	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	00024542	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	03959664	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	06295359	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	06754332	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany		Leisure retailing
Midco 1 Limited	England and Wales	05835640	Property leasing company
Mitchells & Butlers Leisure Retail Limited	England and Wales	01001181	Service company
Mitchells & Butlers Germany GmbH ^a	Germany		Service company
Mitchells & Butlers Finance plc	England and Wales	04778667	Finance company
Other subsidiaries			
Mitchells & Butlers (Property) Limited ^c	England and Wales	01299745	Property management
Standard Commercial Property Developments Limited ^b	England and Wales	00056525	Property development
Mitchells & Butlers Holdings (No.2) Limited ^{a,b}	England and Wales	06475790	Holding company
Mitchells & Butlers Holdings Limited ^b	England and Wales	03420338	Holding company
Mitchells & Butlers Leisure Holdings Limited ^b	England and Wales	02608173	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	04887979	Holding company
Old Kentucky Restaurants Limited	England and Wales	00465905	Trademark ownership
Bede Retail Investments Limited	England and Wales	04125272	Dormant
Lastbrew Limited	England and Wales	00075597	Dormant
Mitchells & Butlers (IP) Limited ^b	England and Wales	04885717	Dormant
Mitchells & Butlers Acquisition Company	England and Wales	05879733	Dormant
Mitchells & Butlers Retail Property Limited ^{a,b}	England and Wales	06301758	Non-trading
Mitchells and Butlers Healthcare Trustee Limited ^b	England and Wales	04659443	Healthcare trustee
Standard Commercial Property Investments Limited	England and Wales	01954096	Dormant
Standard Commercial Property Securities Limited	England and Wales	01689558	Dormant
Temple Circus Developments Limited	England and Wales	06595222	Dormant
ALEX Gaststätten Immobiliengesellschaft mbH	Germany		Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany		Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany		Property management
ALEX Alsterpavillon Management GmbH	Germany		Management company
ALEX Gaststätten Management GmbH	Germany		Management company
PLAN-BAR Gastronomie Einrichtungs GmbH	Germany		Non-trading
Browns Restaurant (Brighton) Limited	England and Wales	01564302	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	02351724	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	01237917	Dormant
Browns Restaurant (London) Limited	England and Wales	00291996	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	01730727	Dormant
Browns Restaurants Limited	England and Wales	01001320	Dormant
Intertain (Dining) Limited	England and Wales	07035107	Dormant
Lander & Cook Limited	England and Wales	11160005	Dormant

a. Shares held directly by Mitchells & Butlers plc.

b. These companies are exempt from the requirement to prepare individual audited financial statements in respect of the 52 week period ended 28 September 2019 by virtue of sections 479A and 479C of the Companies Act 2006.

All companies registered in England and Wales operate within the United Kingdom. The registered office for these companies is 27 Fleet Street, Birmingham, B3 1JP.

All companies registered in Germany operate solely within Germany. The registered office for these companies is Adolfstrasse 16, 65185 Wiesbaden.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SECTION 5 – OTHER NOTES CONTINUED

Associates

Details of the Company's associates, held indirectly, are as follows. Shares in these associates were acquired in the prior period.

Name of associate	Registered office	Country of incorporation and operation	Country of operation	Nature of business	Proportion of ownership interest %	Proportion of voting power interest %
3Sixty Restaurants Limited	1st Floor St Georges House, St Georges Road, Bolton, BL1 2DD	England and Wales	United Kingdom	Leisure retailing	40	40
Fatboy Pub Company Limited	Ampney House, Falcon Close, Quedgeley, Gloucester, GL2 4LS	England and Wales	United Kingdom	Leisure retailing	25	25

5.3 FIVE YEAR REVIEW

	2019 52 weeks £m	2018 52 weeks £m	2017 53 weeks £m	2016 52 weeks £m	2015 52 weeks £m
Revenue	2,237	2,152	2,180	2,086	2,101
Operating profit before adjusted items	317	303	314	318	328
Adjusted items	(20)	(48)	(106)	(87)	(58)
Operating profit	297	255	208	231	270
Finance costs	(114)	(119)	(125)	(126)	(130)
Finance revenue	1	1	1	1	1
Net pensions finance charge	(7)	(7)	(7)	(12)	(15)
Profit before taxation	177	130	77	94	126
Tax expense	(34)	(26)	(14)	(5)	(23)
Profit for the period	143	104	63	89	103
Earnings per share					
Basic	33.5p	24.5p	15.1p	21.6p	25.0p
Diluted	33.3p	24.4p	15.0p	21.6p	24.9p
Adjusted (Basic) ^a	37.2p	34.1p	34.9p	34.9p	35.7p

a. Adjusted earnings per share is stated after removing the impact of adjusted items as explained in note 2.2.

	Notes	2019 £m	2018 £m
Non-current assets			
Investments in subsidiaries	5	1,474	1,474
Deferred tax asset	9	41	48
		1,515	1,522
Current assets			
Trade and other receivables	6	673	739
Cash and cash equivalents		36	14
		709	753
Current liabilities			
Pension liabilities	4	(50)	(49)
Borrowings	8	(8)	(28)
Trade and other payables	7	(284)	(288)
		(342)	(365)
Non-current liabilities			
Pension liabilities	4	(165)	(200)
Net assets		1,717	1,710
Equity			
Called up share capital	10	37	37
Share premium account		26	26
Capital redemption reserve		3	3
Own shares held		(4)	(1)
Retained earnings		1,655	1,645
Total equity		1,717	1,710

The Company reported a loss for the 52 weeks ended 28 September 2019 of £6m (52 weeks ended 29 September 2018 profit of £89m).

The Company financial statements were approved by the Board and authorised for issue on 19 November 2019.

They were signed on its behalf by:

TIM JONES

Chief Financial Officer

The accounting policies and the notes on pages 153 to 155 form an integral part of these Company financial statements.

Registered Number: 04551498

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE 52 WEEKS ENDED 28 SEPTEMBER 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 30 September 2017	36	26	3	(1)	1,556	1,620
Profit after taxation	–	–	–	–	89	89
Remeasurement of pension liability	–	–	–	–	5	5
Deferred tax on remeasurement of pension liability	–	–	–	–	(1)	(1)
Total comprehensive income	–	–	–	–	93	93
Share capital issued	–	1	–	–	–	1
Credit in respect of employee share schemes	–	–	–	–	3	3
Dividends paid	–	–	–	–	(7)	(7)
Scrip dividend related share issue	1	(1)	–	–	–	–
At 29 September 2018	37	26	3	(1)	1,645	1,710
Loss after taxation	–	–	–	–	(6)	(6)
Remeasurement of pension liability	–	–	–	–	15	15
Deferred tax on remeasurement of pension liability	–	–	–	–	(3)	(3)
Total comprehensive income	–	–	–	–	6	6
Purchase of own shares	–	–	–	(3)	–	(3)
Credit in respect of employee share schemes	–	–	–	–	3	3
Tax on share-based payments	–	–	–	–	1	1
At 28 September 2019	37	26	3	(4)	1,655	1,717

The retained earnings account is wholly distributable after the deduction for own shares held.

1. BASIS OF PREPARATION

Basis of accounting

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements. In the current period, the Company has applied a number of amendments to IFRS Standards issued by the International Accounting Standards Board (the Board) that are mandatorily effective for an accounting period that begins on or after 1 January 2018, as described in section 1 of the consolidated financial statements. Other than IFRS 9 Financial Instruments, their adoption has not had any material impact on the disclosures or on the amounts reported in these Company financial statements.

Impact of initial application of IFRS 9 Financial Instruments

(a) Classification and measurement of financial instruments

The Directors of the Company reviewed and assessed the Company's existing financial instruments as at 30 September 2018, based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Company's financial instruments as regards their classification and measurement. Details on the expected credit loss and impact on loss allowances are provided in (b) below.

(b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Company is required to measure the loss allowance for that financial instrument at an amount equal to 12-months' ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables in certain circumstances.

The Company has a trade and other receivables balance that relates to amounts owed by subsidiary undertakings (see note 6). The Directors have reviewed these balances and calculated that there is no expected credit loss for any of the individual balances at 29 September 2018. As such there has been no impact on the Company financial statements and therefore no prior year restatement required.

Critical accounting judgements and key sources of estimation uncertainty

The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgement of the Company is related to the selection of the discount rate and inflation rate assumptions used in the calculation of the defined benefit pension liability described in note 4.5 of the consolidated financial statements. There are no key sources of estimation uncertainty in the current period.

Foreign currencies

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

2. PROFIT AND LOSS ACCOUNT

Profit and loss account

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

The Company recorded a loss after tax of £6m (2018 profit of £89m), less dividends of £nil (2018 £7m). Dividends are disclosed in note 4.7 of the consolidated financial statements.

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2018 £22,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. EMPLOYEES AND DIRECTORS

	2019 52 weeks	2018 52 weeks
Average number of employees, including part-time employees	2	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits, including share-based payments are included within the Report on Directors' remuneration on pages 76 to 97. The charge recognised for share-based payments in the period is £1m (2018 £nil).

4. PENSIONS

Accounting policy

The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability

At 28 September 2019 the Company's pension liability was £215m (2018 £249m). Of this amount, £50m (2018 £49m) is a current liability and £165m (2018 £200m) is a non-current liability.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 141 to 144.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

5. INVESTMENTS IN SUBSIDIARIES

Accounting policy

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

	Investments in subsidiary undertakings £m
Cost	
At 30 September 2017	3,353
Additions	–
At 29 September 2018	3,353
Additions	–
At 28 September 2019	3,353
Provision	
At 30 September 2017	1,879
Impairment	–
At 29 September 2018	1,879
Impairment	–
At 28 September 2019	1,879
Net book value	
At 28 September 2019	1,474
At 29 September 2018	1,474
At 30 September 2017	1,474

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings. In addition, the Company has indirect investments in associate companies through subsidiary undertakings. See note 5.2 of the consolidated financial statements for a full list of subsidiaries and associates.

Investments have been tested for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7.3% (2018 7.7%). For the purposes of the calculation of the recoverable amount, the cash flow projections include 0.0% (2018 0.0%) of growth per annum.

6. TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Amounts owed by subsidiary undertakings ^a	673	739

a. Amounts owed by subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

The Directors consider that the carrying amount of amounts owed by subsidiary undertakings approximately equates to their fair value. An assessment of the lifetime ECL has now been performed with £nil recognised at the period end.

7. TRADE AND OTHER PAYABLES

	2019 £m	2018 £m
Amounts owed to subsidiary undertakings ^a	282	283
Accrued charges	2	4
Other payables	–	1
	284	288

a. Amounts owed to subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

8. BORROWINGS

Accounting policy

The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.2.

Borrowings can be analysed as follows:

	2019 £m	2018 £m
Current		
Bank overdraft	8	28
Total borrowings	8	28

Unsecured revolving credit facility

The Company holds uncommitted credit facilities of £15m. The amount drawn at 28 September 2019 is £nil (2018 £nil).

9. TAXATION

Accounting policy

The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

Deferred tax asset

Movements in the deferred tax asset can be analysed as follows:

	£m
At 30 September 2017	56
Charged to income statement – pensions	(6)
Charged to income statement – tax losses	(1)
Credited to other comprehensive income – pensions	(1)
At 29 September 2018	48
Charged to income statement – pensions	(4)
Charged to income statement – tax losses	(1)
Charged to other comprehensive income – pensions	(3)
Credited to equity – share based payments	1
At 28 September 2019	41

Analysed as tax timing differences related to:

	2019 £m	2018 £m
Pensions	36	43
Tax losses ^a	4	5
Share based payments	1	–
	41	48

a. Tax losses arising in 2008 which are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

10. EQUITY

Called up share capital

Details of the amount and nominal value of allotted, called up and fully paid share capital are contained in note 4.7 to the consolidated financial statements.

Dividends

Details of the dividends declared and paid by the Company are contained in note 4.7 to the consolidated financial statements.

ALTERNATIVE PERFORMANCE MEASURES

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 2.2.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans.

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
EBITDA before adjusted items	EBITDA before separately disclosed items.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal.	Group income statement
Adjusted earnings per share (EPS)	Earnings per share using profit before separately disclosed items.	Note 2.5
Net debt : Adjusted EBITDA	The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 4.1 Group income statement
Free cash flow	Calculated as net movement in cash and cash equivalents before the movement on unsecured revolving credit facilities.	Cash flow statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. LIKE-FOR-LIKE SALES

The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

	Source	2019 52 weeks £m	2018 52 weeks £m	Year-on-year %
Reported revenue	Income statement	2,237	2,152	3.95
Less non like-for-like sales		(184)	(168)	
Like-for-like sales		2,053	1,984	3.49

Drink and food sales growth FY 2019

	Source	2019 52 weeks £m	2018 52 weeks £m	Year-on-year %
Drink like-for-like sales		951	921	3.21
Food like-for-like sales		1,048	1,013	3.39
Other like-for-like sales		54	49	10.82
Total like-for-like sales		2,053	1,984	3.49

Like-for-like sales for first seven weeks of FY 2020

	Source	2020 7 weeks £m	2019 7 weeks £m	Year-on-year %
Revenue		279.6	275.8	1.4
Less non like-for-like sales		(23.0)	(22.8)	
Like-for-like sales		256.6	253.0	1.4

B. ADJUSTED OPERATING PROFIT

Operating profit before separately disclosed items as set out in the Group income statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence (see note 2.2). Excluding these items allows a better understanding of the trading of the Group.

	Source	2019 52 weeks £m	2018 52 weeks £m	Year-on-year %
Operating profit	Income statement	297	255	16.47
Add back separately disclosed items	Note 2.2	20	48	
Adjusted operating profit		317	303	4.2
Reported revenue 52 weeks		2,237	2,152	3.95
Adjusted operating margin		14.2%	14.1%	0.1ppts

C. ADJUSTED EARNINGS PER SHARE

Earnings per share using profit before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

	Source	2019 52 weeks £m	2018 52 weeks £m	Year-on-year %
Profit for the period	Income statement	143	104	37.50
Add back separately disclosed items	Income statement	16	41	
Adjusted profit		159	145	9.66
Weighted average number of shares	Note 2.5	427	425	
Adjusted earnings per share		37.2p	34.1p	9.14

D. NET DEBT: ADJUSTED EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

	Source	2019 52 weeks £m	2018 52 weeks £m
Net debt	Note 4.1	1,564	1,688
EBITDA	Income statement	418	417
Less separately disclosed items	Income statement	18	5
Adjusted 52 week EBITDA		436	422
Net debt: Adjusted EBITDA		3.6	4.0

E. FREE CASH FLOW

Free cash flow excludes the cash movement on unsecured revolving credit facilities and is presented to allow understanding of the cash movements excluding short term debt.

	Source	2019 52 weeks £m	2018 52 weeks £m
Net increase/(decrease) in cash and cash equivalents	Cash flow statement	11	(25)
Net movement on unsecured revolving credit facilities	Cash flow statement	–	6
		11	(19)

F. SECOND HALF ADJUSTED OPERATING PROFIT

Last year we reconciled second half adjusted operating profit as the understanding of the second half growth was material to trading performance for the year. This year we do not view the second half split as material to the understanding of performance therefore no reconciliation is provided.

G. RETURN ON CAPITAL

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

Return on expansionary capital

		2018 FY 2015-18 £m	2019 FY 2016-18 £m	2019 FY 2019 £m	2019 Total £m
	Source				
Maintenance and infrastructure		286	204	60	264
Remodel – refurbishment		170	136	65	201
Non-expansionary capital		456	340	125	465
Remodel expansionary		34	34	5	39
Conversions and acquisitions*		166	125	16	141
Expansionary capital for return calculation		200	159	21	180
Expansionary capital open < 3 periods pre year end		13	8	6	14
Total capital	Cash flow	669	507	152	659
Adjusted EBITDA	Income statement	1,714	1,275	436	1,711
Non-incremental EBITDA		(1,682)	(1,242)	(430)	(1,672)
Incremental EBITDA		32	33	6	39
Return on expansionary capital		16%	21%	27%	21%

* Conversion and acquisition capital is net of capex incurred for projects which have been open for less than three periods pre year end.

Return on remodel capital

			FY 2019 £m
	Source		
Capital investment	Cash flow		152
Non-remodel – refurbishment			(87)
Remodel capital investment			65
Adjusted EBITDA	Income statement		436
Non-incremental EBITDA			(414)
Incremental EBITDA			22
ROI			34%

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Telephone +44 121 415 7088*

For those with hearing loss, a textphone is available on 0371 384 2255*
for UK callers with compatible equipment.

<http://www.mbplc.com/investors/contacts/>

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England & Wales.

KEY DATES

These dates are indicative only and may be subject to change. For the current status visit the financial calendar on our website at www.mbplc.com/investors

Annual General Meeting	21 January 2020
Announcement of interim results	May 2020
Pre-close trading update	September 2020
2020 final results announcement	November 2020

OUR BRANDS

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

Alex

www.dein-alex.de

All Bar One

www.allbarone.co.uk
@allbarone

Browns

www.browns-restaurants.co.uk
@BrownsBrasserie

Castle

www.mbplc.com/findapub

Ember Inns

www.emberinns.co.uk
@EmberInns

Harvester

www.harvester.co.uk
@HarvesterUK

Innkeeper's Lodge

www.innkeeperslodge.com

Miller & Carter

www.millerandcarter.co.uk
@MillerandCarter

Nicholson's

www.nicholsonspubs.co.uk
@Nicholsonspubs

O'Neill's

www.oneills.co.uk
@ONEillsPubs

Premium Country Pubs

www.mbplc.com/findapub

Sizzling Pubs

www.sizzlingpubs.co.uk
@SizzlingPubs

Stonehouse Pizza & Carvery

www.stonehouserestaurants.co.uk
@stonehousepizza

Toby Carvery

www.tobycarvery.co.uk
@tobycarvery

Vintage Inns

www.vintageinn.co.uk
@Vintage_Inns

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