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Purpose

Mitchells & Butlers has a high quality, well located pub estate, focused on the long-term growth in the informal, value for money, eating and drinking out markets. Our operational and investment strategy is delivering better choice and value to our customers and generating profitable sales growth which is increasing our property values as well as our investment returns – all to the benefit of shareholders.

Operational highlights**£18,500**

Average weekly sales per pub

+5.1%

Same outlet like-for-like food sales

+2.2%

Same outlet like-for-like drinks sales

107million

Meals served this year

Financial highlights**+10.1%**

Revenue £1,894m

+11.0%Operating profit £343m
(before exceptional items)**+21.2%**Earnings per share 35.5p
(before exceptional items)**+16.3%**

Dividend 14.25p

Mitchells & Butlers' know-how

Our proven expertise at every level, combined with a pub estate of exceptional quality in prime locations, continues to deliver on our strategy of driving profitable volume growth and creating shareholder value.

Know-how

Increasing property values

Through the successful implementation of our operational and investment strategy we are able to generate further uplifts in asset values within our high quality freehold estate for the benefit of shareholders

Our people

Key to the successful operation of our pubs is our ability to recruit, train and retain the best people. We offer comprehensive training, so experience is not essential, however personality and a passion for customer service are critical

Value and volume strategy

Our operational strategy is to focus on value and volume. Improving the value we offer our customers leads to higher volumes and improved productivity. These gains, along with better purchasing terms, enable us to reduce costs and then reinvest the margin gains in further quality and value

Consumer relevance and format evolution

We strive to anticipate, identify and respond to changing demographic profiles and consumer expectations by evolving our brands and formats

Positioned for success

With 3% of the pubs in the UK, we have a 10% share of pub market sales. This has been achieved through a strategic positioning of the estate to attractive areas of the market, which has driven our growth, particularly in food.

£18.5k

2007 Average weekly sales per pub
(1998 £9.9k)

37%

2007 Food sales mix
(1998 22%)

107m

2007 No. of main meals sold per annum
(1998 41m)

Residential

The majority of our pubs have prime locations in residential areas and are therefore well positioned to take advantage of the growth in eating-out as well as increasing our drinks market share.

75%

of sales

1,392

pubs

45%

food sales mix

3.1%

same outlet like-for-like sales growth

High Street

We have successfully evolved our brands and formats on the High Street over a number of years and this has continued to bear fruit, seeing strong growth in a competitive market.

25%

of sales

457

pubs

16%

food sales mix

3.0%

same outlet like-for-like sales growth

Growth and investment

We have invested a total of £253m in our pubs over the year. This has enabled us to develop, evolve and maintain our high quality estate, with significant returns on investment, whilst further improving our relative value proposition in light of the under-investment in the overall on-trade pub market.

£1.1bn

Over £1.1bn* UK expansionary investment over the last 16 years

20%

20%* return on investments in the core estate over the last two years

20%

c 20% sales uplift from converted Acquired Sites

* Excludes the Acquired Sites

Investments in FY 2007**Our market**

The pub market is estimated to be worth over £19bn per annum. It has benefited over the last ten years from the growth in the popularity of eating-out, with approximately a third of total household food expenditure now made outside the home. This is in contrast to the more traditional pub market of draught beer, which has declined, down 27% in volume since 1998.

Against this background, our strategy has proved exceptionally successful, driving market share gains in all key categories.

Profitable market share gains

Delivering shareholder value

Since our foundation in 2003, the Board has had an absolute commitment to the creation and delivery of value to shareholders whether through organic growth, investment in the business for high returns, the pursuit of value creative acquisitions, or a return to shareholders by way of dividends and share buybacks

Roger Carr,
Chairman

Mitchells & Butlers' results this year reflect a strong financial performance and we are pleased with the operational development across the business. The executive team has been particularly effective in growing sales and profits despite some significant economic and cost challenges, whilst also rapidly implementing the conversion of the high quality Whitbread sites acquired in July 2006. We have extended our leadership of the eating-out market serving 107 million meals and generated significant drinks market share gains. As a result, revenues have risen by 10%, operating profits by 11% and earnings per share before exceptional items by 21%.

This performance has enabled the Board to recommend a final dividend payment of 10.0p per share, taking the total ordinary dividend for the year to 14.25p, an increase of 16.3%. This payment is additional to the Special Dividend of £486m paid to shareholders in October 2006 and reflects the strong growth in earnings per share, as well as our commitment to a progressive policy for dividends.

Since our foundation in 2003 the Board has had an absolute commitment to the creation and delivery of value to shareholders whether through organic growth, investment in the business for high returns, the pursuit of value creative acquisitions, or a return to shareholders by way of dividends and share buybacks.

With this guiding principle in mind, and recognising that a consistently higher valuation is placed by property investors on our estate than is valued within the current integrated model, the Board has been investigating options for capturing the value of the property estate for shareholders on a sustainable basis.

To that end, after a competitive process, substantial progress was made in the summer on negotiating a joint venture transaction with R20 (the investment vehicle of Robert Tchenguiz). In the final stage of this transaction, we entered into hedging agreements which were a fundamental bank requirement to secure the necessary financing arrangements for the joint venture and to achieve appropriate ratings from ratings agencies. However, the sudden and unprecedented collapse of world debt markets rendered the joint venture undeliverable but left the hedging arrangements in place. Driven by a most unusual mix of inflation and interest rate expectations, combined with limited liquidity, the cost of the

hedges at the year-end, although not a cash item, had risen to £155m after tax. The hedging arrangements have been retained as the Board remains committed to a property-based refinancing which would utilise them, once debt markets have recovered. The Board will continue to balance the assessment of risk with potential reward of this policy.

Whilst the Board's focus has been on the establishment of a property joint venture, alternative property based refinancing structures remain under consideration. In this context, the board has received a proposal from R20 in respect of a demerged Real Estate Investment Trust ('REIT') structure, which includes R20 procuring a fixed price underwriting for in the region of 25% of the REIT equity. The attractiveness and feasibility of this proposal is being explored. A REIT structure would have to meet the Board's requirement for an appropriate balance to optimise the value of both demerged companies as independent entities.

The Board will continue to review alternative structures that would demonstrably create value from the property, whilst providing an attractive long term business model for the operating company.

In view of the focus on Mitchells & Butlers' real estate, we considered it was important to establish a current value of our freehold and long leasehold properties and we requested Colliers CRE to update our valuation as at 29 September 2007. The revised value of the estate in our books at £5bn represents a net increase of £1.1bn compared to the historical accounting basis and provides a solid and up to date foundation for judging the asset strength of the Group in turbulent times.

Because pubs are specific use assets, it is the operational success of the business which has been the primary factor in growing the value of our freehold property and which has also enabled us to return over £1.1bn in cash to shareholders since demerger in 2003, over and above ordinary dividends. This performance has been driven by our operational teams who I believe are collectively the best in the industry. I would like to thank them all for their perseverance, flexibility and hard work during the year.

There has been one change to the Board announced during the second half of the year. Tony Hughes, 59, stepped down as Managing Director, Restaurants on 1 October 2007 since when he has been assisting in the handover of his role and the further development of food capabilities in the business. He will retire from the Board of the Company on 31 December 2007. He is succeeded

by Adam Fowle, previously Managing Director for the Acquired Sites and Business Development. Adam has some 20 years experience in licensed retailing, having joined Mitchells & Butlers in 1985. He was previously Managing Director of the Pubs & Bars division, becoming a Retail Director at Sainsbury's for two years. He rejoined Mitchells & Butlers in 2005.

I welcome Adam to the Board and would like to thank Tony for his exceptional contribution to the Company over the last 12 years. His vision and drive have been instrumental in the development of our highly successful pub restaurant brands. I wish him every happiness in his retirement.

Looking forward, 2008 will undoubtedly be a more challenging year, with the uncertain outlook for consumer confidence and the first year of the smoking ban. However, I am confident that a clear management strategy for competitive out-performance based on high quality brands, excellent sites and strong operating skills will underpin the continuing progress of the Company.

Financial trends

Revenue (£m)		Operating profit (£m)		Final dividend per share (p)		Notes
2005	2006	2005	2006	2005	2006	
1,631m	1,720m	289m	309m	7.55p	8.60p	EBITDA, operating profit and profit before tax are all stated before exceptional items
2007	1,894m	2007	343m	2007	10.00p	
EBITDA (£m)		Earnings per share (p)		CROCC (%)		
2005	2006	2005	2006	2005	2006	
403m	430m	25.4p	29.3p	10.6%	11.0%	
2007	472m	2007	35.5p	2007	10.8%	

Mitchells & Butlers has delivered another strong trading performance. We extended our leadership of the eating-out market, serving 107 million meals and making sizeable drinks market share gains.

Our focus on amenity, service and value has positioned us well to deliver further out-performance against the market through the first year of the smoking ban and more challenging market conditions.

Tim Clarke,
Chief Executive

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

All numbers (except where stated) are before exceptional items.

**Chief Executive's review
of the market & strategy**

As a result of our focus on amenity, range, service and value, Mitchells & Butlers has delivered another strong trading performance with like-for-like sales growth of 3% in the year. Sales increases have been effectively converted into profits growth, with further improvements in employee productivity, purchasing gains and effective cost controls generating an operating profit of £343m before exceptional items. Retail net operating margins are broadly in line with last year despite £8m of regulatory cost increases and, as a result of the conversion of the Acquired Sites, £14m of closure and pre-opening costs. Earnings per share before exceptional items of 35.5p for the year are 21.2% ahead of last year reflecting the strong trading performance, the contribution from the Acquired Sites, a significant development project completed by Standard Commercial Property Developments Limited ('SCPD'), as well as the share consolidation that accompanied the Special Dividend earlier this year.

The market

This good performance has been achieved against some difficult market conditions in the latter part of the financial year. Rising interest rates, growing inflation pressures and an increased tax burden have begun to reduce consumer confidence particularly of mid-market families with mortgages. Industry growth this year has also been limited by poor summer weather.

This has coincided with the introduction of the smoking ban in England and Wales, which is accelerating the key underlying trends in the market: the growth in casual pub users replacing frequent regulars, the increasing importance of food, soft drinks and wine against the decline of beer and machine income, the growth in pub usage by women, families and the growing retired population and the decline in male session drinking, and the growth in the importance of the off-trade (and supermarkets in particular) contrasting with the decline in the traditional on-trade beer market.

While the uncertain consumer environment, the smoking ban and the poor summer weather have each contributed to a tightening of the short-term market, especially in drinks, the long-term outlook for the value for money eating-out market continues to be good with on-trade food volumes up 3% in the year, driven by long-term lifestyle changes. Our sales strategy, the positioning of our brands and formats and the quality of our pub locations have enabled us to achieve good sales growth in the year and leave us competitively well.

placed to make further market share gains in a more challenging environment during the year ahead. A number of long-term factors reinforce our confidence.

Pub usage is becoming more popular although less regular. Since 1990 the proportion of adults visiting pubs at least monthly has risen from 59% to 72%, with a marked acceleration in the growth of less frequent customers since the turn of the century. This growth in total number of users reflects the increased popularity and availability of eating-out in pubs, driven by social and lifestyle changes such as the increase in the female working population and single households along with the affluence and longevity of a growing retired population. Alongside this, the traditional pastime of visiting the local pub several times a week solely to drink continues to decline with the proportion of those visiting at least three times a week reducing by more than half to 8% of the adult population (Fig 1).

The smoking ban, which now applies to the whole of the UK, has served to reinforce this development, broadening pubs' appeal to new or less frequent users who are now more attracted to pubs, particularly for eating-out. Evidence from Scotland, which is now in the second year of the smoking ban, suggests that there are significant long-term growth opportunities for pubs focused on driving food sales to these less frequent users.

Eating-out is increasingly the reason for visiting.

The eating-out market has been growing steadily over the past 20 years at around 4% in real terms, reflecting both changing lifestyles and the wider provision of good value food offers. Eating-out now accounts for approximately a third of total household expenditure on food in the UK, but it is only at levels achieved in the US over 30 years ago. The value for money offered by the pub combined with its relaxed casual dining atmosphere means that it has been capturing an even greater share of this wider eating-out market (Fig 2).

Through selective acquisitions and disposals, Mitchells & Butlers has repositioned its estate of pubs to focus on large sites which afford the scale to drive high volumes of food at very attractive prices. The average main meal price in Mitchells & Butlers sites is around £5.60 against a UK average of between £8 and £9*. This value for money positioning has helped to drive food volume growth of 67% over the last five years.

The customer appeal of pub food is expanding.

Traditionally, eating-out in pubs and particularly pub restaurants has been concentrated in suburban areas amongst predominantly middle income consumers. This segment of the market, while still growing, has slowed as a result of consumer economic pressures especially in the light of rising mortgage bills and other cost of living increases. This, in turn, has led to some pressure on sales for some of our mid-market brands and formats.

Over recent years, however, the market for eating-out in pubs has broadened considerably, both to more affluent customers through the development of gastro-pubs and to the more densely populated housing estates through the dramatic growth of local pub food. The smoking ban has given this latter market significant additional momentum. For example in the period since the introduction of the ban to the year end same outlet food sales in our Local Pubs were up 14% with additional increases in associated drinks sales.

Mitchells & Butlers is developing its formats to respond to these changing market dynamics. In the higher affluence areas we have expanded our Premium Country Dining format and at the year end we had 44 pubs operating under this format across the country. In the more blue collar segments our Sizzling Pub Co and Pub & Carvery formats offer exceptional value: steak and chips at £3.99 or a full carvery meal at £3.50 during the week. These formats have seen very high increased footfall and volume growth, with the average Pub & Carvery site now selling over 2,900 meals per week.

* Source: Menurama

Fig 1 On-trade frequency of visits
% of adults visiting

Monthly	1990	59
	2000	63
	2007	72
Weekly	1990	41
	2000	39
	2007	38
3+ times a week	1990	17
	2000	12
	2007	8

Notes

Since 1990 the proportion of adults visiting pubs at least monthly has risen from 59% to 72%. Alongside this, those visiting the local pub several times a week solely to drink has declined.
Source: TNS Alcovision 2007

Fig. 2 Eating out as a percentage of total
food expenditure (UK vs US)

Notes

Eating out now accounts for a third of total household expenditure on food in the UK, but it is only at levels achieved in the US 30 years ago.

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

Chief executive's review of the market and strategy continued

Growth in food-related drinks volume
An ever increasing proportion of drinks sales in pubs are now associated with ancillary purchases alongside food, rather than solely drinking occasions. These incremental drinks sales are biased towards wine and soft drinks, helping to mitigate the impact of the poor summer this year which has led to a slow down in the overall market for soft drinks and wine which fell 2%. The strength of our food volume performance and our drinks retailing skills has enabled us to maintain our relative out-performance in both these categories making substantial market share gains and showing positive volume growth. This has been achieved by attracting new customers together with the value for money, range and quality of our drinks offers.

Continued decline in on-trade beer
The same social and demographic changes which are fuelling the growth in pub food are contributing to the continued decline in the on-trade beer market with volumes down 5% in the year. This has also been driven by the scale of the retail beer price increases taken by the on-trade in general and by the widening price gap between the on-trade and the supermarkets. This has been particularly evident with significant supermarket discounting of beer around major holidays such as Christmas and important sporting events such as the football and rugby World Cups.

In response to falling volumes, most of the on-trade has responded by consistently raising prices ahead of general inflation. In contrast, we have followed a policy of pricing restraint leading to sustained beer market share gains, for example on average a pint of standard lager in a Mitchells & Butlers pub is now £2 12, 36 pence cheaper than the average in the leased and tenanted competition. As a result same outlet beer volumes have grown by 6% over the past four years, almost keeping in line with off-trade volume, and substantially out-performing the rest of the on-trade volume decline of 15% (Fig 3).

Although the market is yet to experience a winter, the English smoking ban is already accelerating the shift from on-trade to off-trade. In the first four months following the English ban, which was introduced on 1 July 2007, the on-trade has seen beer volumes decline by over 6%, while the off-trade has seen volumes grow by nearly 7%.

Mitchells & Butlers strategy for growth
The results achieved this year reflect our leadership position in the growing eating-out market and further significant drinks market share gains. Our average weekly sales per pub are up 6% to £18.5k and operating profit has increased by 11% to £343m. We have generated this performance through the successful implementation of our sales strategy, which is to

Lead the value for money casual dining market
We have continued to capitalise on the growth in informal, value for money, eating out with same outlet like-for-like food volumes increasing by 6% in the year against a pub food market up 3%. We are now selling in total 107m meals a year. Our total food sales, including the benefits of the Acquired Sites, grew by 22% in the year. This has been achieved through a constant focus on quality and value to the customer and we will continue to reinvest margin into our menu offers to generate further profitable volume growth.

The key to generating profitable food growth is responding to customers' high sensitivity to perceptions of value. This is reflected in both high consumer price elasticities and rising menu quality expectations.

Our business model is focused on attracting incremental food volumes which in turn generates high margin drinks sales. With low additional employment costs, the gross profit generated has a high drop through to operating margin.

As a result of this trading strategy, across the estate as a whole, average weekly food sales rose by 12%, while the average number of meals served grew by 15% as the mix moved strongly towards the value segment. Thus, although like-for-like food prices rose 1.6%, the average retail price of food served fell by 0.8% due to the shift in mix.

Fig 3 MAT beer volume
On-trade vs off-trade

- Off-trade volume
- MAB volume*
- On-trade volume**

Notes

MAB same outlet beer volumes have grown by 6% over the past four years, almost in line with off-trade volume and substantially

outperforming the rest of the on-trade volume decline of 15%.

Source: BBPA

* MAB same outlet volumes to October 2007

** Excludes MAB volume

We believe that the smoking ban, now implemented across the UK, will further strengthen the growth prospects for food sales in our pubs, by being able to attract new customers previously deterred by tobacco smoke. Since the smoking ban was implemented in England, same outlet like-for-like food sales are up 5%.

Generate significant drinks market share gains
Our same outlet like-for-like drinks sales increased by 2.2% in the period. Sales volumes, a crucial measure of underlying customer usage, once again strongly out-performed the market across all the key categories of beer, cider, wines, spirits and soft drinks. Crucially, our same outlet beer and cider volumes were maintained against the background of a 4% decline in the on-trade market for these products in the year as a whole.

We are out-performing in the beer category through widening the product range that we offer, improving the serve quality through intensive cellar training and investment in cooling systems, as well as delivering better presentation through attractive glassware.

Value is also playing a key part in our strong drinks market share gains, with a wide gap opening between our pricing and general on-trade pricing, thereby protecting our volumes from the supermarket discounting. As a result, the average retail price of standard lager is now 36 pence per pint less in our pubs than the average in leased pubs. This is despite our average retail drinks prices rising by 3.4%, partly due to like-for-like price increases, but also due to trading up to new, premium products. This increase is less than the price rises across the on-trade as a whole. As a result of these product initiatives and pricing policies, on a longer-term perspective, we have grown our same outlet beer volumes by 6% over the past four years, against a 15% decline in the rest of the on-trade.

We have been following a similar strategy in wine, soft drinks and coffee which are key attractions to new users of pubs. We have been extending our ranges with new premium products, offering good value own label products and enhancing the serve quality. Wine sales volumes grew last year by 3% with draught dispense now in some 630 pubs. In soft drinks, we have been successfully extending the range of fresh juices, cordials and mineral waters. We have also installed new branded coffee offers in around 1,200 pubs, with an uplift in sales volumes of 23%.

Sizzling Pub Co

Fundamental to the market out-performance of SPC is the format's ability to attract an increasing number of customers into its pubs through its great value food offer, to make incremental, full-price drinks sales to these customers. Thus its current offer of two main meals for £6 from 2.30pm to 6.00pm Monday to Friday has seen the number of meals sold in this time-slot grow to 16,000 per week over the last two years.

Pub & Carvery

As the rise in frequent, casual eating-out among value-focused consumers has continued apace, Mitchells & Butlers has successfully evolved new formats to tap into this fast-growing area of the market. One such format is Pub & Carvery, trialled over two years ago, and now trading in 58 sites nationally. Serving an average of over 2,900 meals a week, the highest we believe of any format in the industry, the brand provides a traditional, relaxed pub environment with a freshly-cooked carvery offer priced from an incredible £3.50. For our guests, this represents better value than eating at home. The brand has average weekly sales of almost £30k per pub and is providing very high incremental returns on investment.

Chief executive's review of the market and strategy continued

Develop and evolve an industry-leading portfolio of formats to drive sales growth. Our emphasis on innovation to develop our brands and formats to keep pace with fast changing consumer expectations is focused on ensuring that we continually attract new customers and generate higher levels of visits. We have developed an industry leading portfolio of brands and formats targeted at the growth segments of the market. Average weekly sales per pub are well over three times the industry average.

For instance, during the course of the year we have further developed our category killer, value food formats, Sizzling Pub Co., Pub & Carvery and our new Community Locals format 'Cornerstone'.

These each offer outstanding food value, with main meals priced between £3.50 and £4.50, in an attractive, high amenity pub environment. Pub & Carvery is now generating an average of over 2,900 meals per pub per week, the highest, we believe, of any format in the industry. We have also evolved our long established High Street formats of O'Neill's and Scream, with strong performances resulting. Similarly the development of our London offers of Nicholson's and Metro Professionals has generated exceptional double digit food sales growth.

Deliver a profitable, integrated food and drinks offer. Whilst eating out is increasingly the reason that customers visit a Mitchells & Butlers pub, combining higher growth, lower margin food sales with higher margin drinks sales is key to maximising overall profitability. Our aim is to add incremental food sales which can be delivered at low marginal cost with an attractive drop-through to profit.

Extract volume driven efficiencies. Our rising volumes are critical in underpinning our efficiency gains. This year we have seen a further strong rate of increase in staff productivity, with a 3.9% increase in staff contribution per hour in the core estate. This reflects the impact of our training programmes, our focus on the optimum deployment of staff and ever more refined techniques for forecasting and scheduling. These have enabled us to realise significant productivity gains and maintain our pub employment cost ratio below 24% of sales excluding the Acquired Sites, despite a further increase of 6% in the National Minimum Wage in October 2006.

On purchasing, the Cost of Goods' index increases have seen cost rises held to under 1%, significantly below inflation, while £7m per annum of purchasing synergies from the Acquired Sites were delivered this year, ahead of our forecasts at the time of acquisition.

We also continue to drive process efficiencies in the infrastructure to leverage our scale economies. For example, the extra overhead required to service some £200m of sales from the Acquired Sites will have been held to £2m per annum. These factors have enabled us to maintain high net operating margins of 17.9% broadly in line with last year, despite £8m of regulatory cost increases and £14m of closure and pre-opening costs.

Over the next 12 months we have instigated a material rationalisation of the organisation, with approximately £7m of annualised cost efficiencies targeted to be delivered in FY 2009.

Extend the skill base of operational excellence throughout the estate. The skills and experience of our operating teams provide a critical competitive advantage for us in delivering high standards of customer service efficiently and profitably. We have continued to build our staff training programmes and industry leading practices in the areas of capacity management at peak times, kitchen processes and organisation, bar and floor service productivity, staff product knowledge and our responsiveness to direct measures of feedback on guest satisfaction. This focus on operational excellence is central to the high average levels of sales and profitability generated by our pubs.

Proactively manage the estate to maximise value. Our strategy is to maximise the profitability and value of each pub by applying the breadth of our trading formats as is most appropriate to the local market and demographics. During the year we have been adding value through this strategy to both the Acquired Sites and the existing estate. The Acquired Sites' conversion programme remains on track with 172 pubs now converted to our formats. We have moved at a rapid pace with the integration programme to turn around their previous under-performance and provide a platform for future growth. Average weekly sales uplifts on the converted sites are running at approximately 20% above the levels at which the pubs were acquired. We remain confident in delivering the year three target of 30% sales uplifts in the 2009 financial year.

In addition, we opened six new sites, and carried out 65 conversions and 13 growth projects to change the customer offer or increase the trading area of the site in the core estate. Overall, we are generating a pre-tax incremental return of 20% on our expansionary investment over the last two years in the core estate.

As a result of this strategy, and in the light of the general levels of investment in the on-trade market as a whole, the amenity gap between our pubs and the majority of pubs in the UK is widening, further improving our overall customer value proposition and our market share gains relative to the rest of the on-trade.

We continue to make targeted disposals, where the value to third parties is higher than the trading value to us. During the year we generated £162m of disposal proceeds, including the sale of 102 pubs to Trust Inns Ltd in October 2006, taking advantage of the buoyancy in the property market to crystallise the value of smaller pubs, which had limited food growth potential.

Grow profits and capture asset appreciation to benefit shareholders. Pubs are valued as specific use assets, primarily on the basis of their profitability and our strong operating performance has helped to generate further capital appreciation within our estate. This has been reflected in the £1.1bn upward revaluation of the estate to £5.0bn that has been carried out in conjunction with our property valuers, Colliers CRE.

Our focus remains on releasing to shareholders the benefits of this capital appreciation. At the start of the year, in October 2006, we returned £486m to shareholders by means of a Special Dividend of £1 per share, crystallising for shareholders the continuing growth in the value of the estate.

It has also been clear that property investors are attracted to the long-term, secure growth prospects that can be created through the rentalising of part of our operational cash flows in a dedicated property structure. Whether in a joint venture, a REIT or another separate property structure, fundamentally higher values appear to be placed on the estate than when it is combined in an integrated model with the operations.

We believe that substantial value can be potentially captured from our high quality, freehold and long leasehold assets, through such structures. A key consideration in such a process is to construct a lease arrangement which ensures that both the property and the operations remain mutually incentivised to continue to create long-term value.

The Board will continue to investigate actively the options for capturing the value of the property estate for shareholders on a sustainable basis.

Cask ale training

The quality of our cellar skills has been instrumental in our sustained gains in beer market share. With the increase in demand for cask ales, Ember Inns has invested this year in specific training on the management and serve of cask ale, to ensure customers enjoy the finest quality pint possible. Most Ember Inns are now certified by Cask Marque, an independent accreditation scheme to recognise excellence in the service of cask ale, and each pub has a beer quality champion, trained by experienced brewers.

Acquired Sites

In July last year, we acquired 239 of the best pub restaurant sites in the UK. These freehold pubs were well located, large, predominantly residential and freehold or long leasehold, and approximately half situated in the higher growth regions of the South East and South West of England. They were therefore an excellent strategic fit with the Company's existing estate. Our key capital investment priority this year has been the rapid and successful conversion of these sites and a total of £80m has been invested to this end.

Key performance indicators

Alignment of remuneration incentives with key performance indicators ('KPI's') It is a key principle of the Company to align the interests of the Directors and other key employees with those of its shareholders. Executive remuneration (as detailed in the Remuneration report on page 35), therefore includes schemes which contain elements of remuneration linked to the KPIs below. Same outlet like-for-like growth, EPS and incremental return on expansionary capital are used as performance measures within the Short Term Deferred Incentive Plan ('STDIP') and the amount by which cash return on cash capital employed ('CROCCE') exceeds weighted average cost of capital ('WACC') is used within the Performance Restricted Share Plan ('PRSP') scheme.

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

For the purposes of remuneration schemes, TSR is taken over the life of the scheme rather than as an annual measure. Over the last three years, the Company has delivered an increase of 216% in TSR reflecting the success that has been achieved in executing Mitchells & Butlers' strategy.

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

- 1 Same outlet like-for-like sales growth – Mitchells & Butlers' operational and marketing plans have delivered strong and consistent like-for-like sales growth of 3% in the year (4.1% in FY 2006)
- 2 EPS growth – Mitchells & Butlers' strong trading performance, together with share repurchases and the share consolidation that accompanied the Special Dividend in October 2006, have generated growth in earnings per share before exceptional items of 21.2% in the year (15.4% in FY 2006)
- 3 CROCCE in excess of WACC – Mitchells & Butlers aims to maximise the difference between the post-tax CROCCE and its WACC, a key measure of value creation. A CROCCE of 10.8% after tax was achieved in the 12 months to 29 September 2007, around 4 percentage points ahead of the estimated WACC for the year, reflecting good operating performance supported by an efficient use of the balance sheet. (CROCCE was 11% after tax in the 12 months to 30 September 2006, around 5 percentage points ahead of our estimated WACC for that year)
- 4 Incremental return on expansionary capital – Our track record in this area has remained strong during the period. Pre-tax returns of 20% are being achieved on the core expansionary capital projects carried out over the last two years. This measure excludes the recently Acquired Sites due to the relatively short period of ownership and post-conversion trading, making it more difficult to estimate seasonal patterns and annualised returns. (Pre-tax returns of over 20% were achieved on the core investments made in the previous two years in FY 2006)

KPI definitions

Same outlet like-for-like sales growth
The sales this period compared to the sales in the same period in the previous year of all managed pubs that were trading throughout the two periods being compared, expressed as a percentage.

EPS growth

The earnings per share for the period before exceptional items, compared to the comparable period last year as reported in the financial statements expressed as a percentage.

CROCCE in excess of WACC

The post tax cash return on cash capital employed compared to the weighted average cost of capital post tax, where the cash return is earnings before interest, tax, depreciation and amortisation less cash tax that would be charged on operating profit without any tax shield from interest.

Cash capital employed is the average net operating assets, plus the average accumulated depreciation, plus goodwill written off, less the historical revaluation reserve.

The WACC is the post-tax weighted average cost of capital, calculated using the post-tax cost of debt during the year and the cost of equity, weighted according to the proportion of the Company financed through debt and equity.

Incremental return on expansionary capital

Incremental return is the growth in annual pub operating profit expressed as a percentage of the associated capital investment for sites having received expansionary investment over the last two financial years. Sites are included once they have been trading for three months. For sites which have not been trading for a full 12 months, incremental return is estimated based on an annualisation of actual post-investment trading. Expansionary capital is capital invested to increase the trading area of a pub or to materially change the customer offer. Expansionary capital represents investment over and above the maintenance investment cycle for a pub.

This review expands on the operational strategy outlined in the Chief Executive's Review, describing the main resources the Group has deployed to achieve its results and presenting some examples of the strategy in action in FY 2007.

Lead the value for money casual dining market

Historically, Mitchells & Butlers' sites were heavily concentrated in the main UK industrial areas of the North and Midlands. However, following a number of disposals, the acquisition of 550 pubs from Allied Domecq in 1999 and the purchase of the Acquired Sites in July 2006, as well as the addition of over 400 individual sites since the early 1990s, the business is now spread across the UK, more broadly mirroring the demographics of the UK population with a higher weighting in the affluent South East and London.

Our pubs are situated predominantly in residential areas (75%) with the vast majority either freehold or long leasehold (almost 90%) and having high average weekly sales of £18.5k (over three times greater than that of the average UK pub).

The estate over the last 10 years has therefore been fundamentally repositioned to capture the strongest growth areas of the market. Hence, in a pub eating-out market that has grown by 27% since 2002 and is forecast to grow by a similar amount in the next five years, our food volumes have increased by 67%. Additionally our food sales mix has grown from 22% of total retail turnover in 1998 to 37% at the end of 2006 (Fig 4).

Critical to this growth has been our absolute focus on providing value to our customers, through fresher, higher quality ingredients at lower price points. Consequently the average price of a main meal in a Mitchells & Butlers pub is now approximately £5.60, highlighting the value proposition, particularly considering the relative healthiness, quality of service and amenity that our pubs offer.

Generate significant drinks market share gains

We focus our drinks retailing at delivering a wide range of products from across the world without being tied to any specific producer. For example, across the Company we now stock over 40 draught lagers compared to only five 10 years ago.

Our drinks volume out-performance has been driven by our focus on improved serve quality and on point of sale communication with further range extensions. We are using our unit level and purchasing scale economies to improve quality and choice for our customers and thereby gain market share.

In beer, we have increased the number of outlets using glycol technology to improve the quality of their draught beer and have sought to improve the range of beers on offer. For example in Nicholson's we are responding to market trends by increasing the number of ales handles on each bar to six, whilst increasing and premiumising the lager choice by installing Erdinger and Peroni.

We have been following a similar strategy in other drinks categories, extending our ranges, bringing in new premium products, offering good value own label lines, and upgrading the serve quality.

In wine, we are seeing both trading up to better quality premium wines, while at the same time our own label wines, such as Silverland, have grown to around 25% of sales. We also now have draught wine dispense in some 630 pubs, with draught wine sales now accounting for almost 10% of total wine sales.

In soft drinks, our priorities have been on range extension in the fast growing fresh juice as well as other categories. In June we refreshed the range of juices and cordials in our Pubs & Bars division, driving sales growth of 16% in the period to the end of the year despite the poor summer weather.

While in coffee, we have installed branded coffee offers such as Costa, Illy, and Segafredo in almost 1,200 pubs.

Further extending the quality of our drinks offers into these 'non-traditional' lines will add to the attraction of our pubs to new and light users.

This focus on choice, value and quality has resulted in continued market share gains in all the main drinks categories.

Evolve and develop our brands and formats to drive sales growth through high levels of amenity and service. Mitchells & Butlers operates a spectrum of brands and formats tailored to specific user groups in particular demographic areas. The division into Residential and High Street areas is further split by occasionality into drinks-led and food-led pubs giving the main segments of the market: local pubs, pub restaurants, high street pubs & bars and city centre restaurants. These have developed into some of the strongest consumer brands and formats in the industry. The chart overleaf sets out the range of brands and formats operated by Mitchells & Butlers in each of these market segments (Fig 5).

We evolve our brands and formats through spending regular amounts of maintenance expenditure to match changing consumer needs. This evolution can also be driven through a change in our offers. For example our O'Neill's brand has been refreshed in the year, improving both the range of drinks offered and the choice and quality of its menu.

We have also continued to trial new formats to tap into fast growing areas of the market. One example of this is Pub & Carvery which was trialled over the last two years and has grown to 58 sites. It has average weekly sales of almost £30k and is providing very high incremental return on investment. This format targets value orientated consumers – offering a freshly cooked carvery meal at around £3.99 in a pleasant relaxed environment, which represents better value for money than the home cooked alternative.

Our key capital investment priority this year has been on the rapid and successful conversion of the Acquired Sites to our strong brands and formats. The outstanding quality of these sites has more than met our pre-acquisition expectations and the intensive preparations beforehand have put us in a position to move rapidly ahead with the conversion process. The scale and speed of this programme has already converted the vast majority of these sites, a mere 16 months following the acquisition.

Fig. 4 Total and food average weekly take per pub 1998-2007



Fig. 5 Brands and operating formats FY 2007

Individual pub

Strong branding

- Notes**
- 1 Excludes Hollywood Bowl (25 outlets) and Alex (42 outlets)
 - 2 The Group operates 4,235 rooms adjacent to its pubs and pub restaurants under the InnKeeper's Lodge and Express by Holiday Inn brands
 - 3 Percentages represent split of UK managed pubs and sales (excluding bowling) at end FY 2007
 - 4 When converted the Acquired Sites are included within the relevant brand or format

The initial sales uplifts are approximately 20%, and we are on track to achieve our three year, 30% target. We expect a further steady build up over the next couple of years.

Deliver a profitable, integrated food and drinks offer
Critical to the success of our strategy to date has been our focus on leveraging the growth in food to attract customers to the pub, thereby increasing higher margin ancillary drinks sales to maximise profitability. We also aim to reinforce the link between food and drink through our marketing activity and sales promotions.

In Toby, for example, we have dropped the price point for a carvery meal from £5.25 to £5.00 in mid week, this has not only driven food volume but drinks sales as well, and most importantly, net profit.

Extract volume driven efficiencies
Scale at both the pub and corporate level is critical in ensuring the success of our value and volume strategy (Fig 6)

At the corporate level, the growth in our food sales over the last five years has enabled us to increase our purchasing power with suppliers, for example we buy products such as turkey tops in greater quantities than the major supermarkets. This has helped to offset the faster growth in relatively lower margin products such as food and wine and enabled us to counter the over £70m increase in regulatory and energy costs during that period. Through reducing purchasing costs we can increase quality, pass additional value on to our customers and in turn further increase our volumes. For example, Mitchells & Butlers purchased 1.1 million kilograms of jacket potatoes in the year. Better market conditions and alternative sources for potatoes have ensured improved commercial terms for the Company, with a saving of 24% on our annual spend. This focus has enabled us to hold our cost of goods flat this year with the gain on new contracts offsetting inflation, duty increases and the contractual increases in on-going agreements.

At the pub level, through operating large scale pubs, we are able to provide the quality of amenity and service and the range of products at good value prices that today's customers demand. The Company constantly invests in developing operating skills in the efficient

management of kitchens, bars and serve times, to deliver high service standards at peak trading times. Our Pub & Carvery format, which offers freshly cooked food at a highly attractive £3.99 price point, has had significant success in the densely populated housing estates. In the last three years therefore average spend per head has fallen from £4.71 to £4.01, while average meal volumes have risen from 1,800 per week to over 2,900 per week. Profitability has been further enhanced by the incremental drinks sales generated, which along with productivity gains have led to average profits per pub up 29%. It is our purchasing power allied to our strong operating skills that have enabled us to achieve this performance.

Unit scale allows the Company to schedule and deploy staff very closely to the trading patterns of the pub thereby capturing additional sales at busy times and reducing labour costs during quiet periods. Through sophisticated scheduling and forecasting of sales, we have been able to maintain pub employment costs at under 24% of sales despite the substantial real increases in the National Minimum Wage.

We have also had considerable success in applying our productivity systems and purchasing power to the Acquired Sites where we have made £7m of purchasing gains during the year.

Extend the skill base of operational excellence throughout the estate
Key to the successful, profitable operation of our businesses is our ability to recruit, train and retain the best people. Our wide range of brands and formats mean we are able to offer a huge variety of opportunities to our employees, from bar staff to kitchen manager to chef. We offer comprehensive training so experience is not always essential, however, personality and a passion for excellent customer service are critical. The Company is committed to providing equality of opportunity to all employees without discrimination and we are supportive of the employment and advancement of disabled and disadvantaged persons.

Mitchells & Butlers deploys a combination of assessment centres, internal development centres, recruitment advertising, interviewing and on-job evaluation to recruit potential managers and assistant managers and to help people develop their careers. At the same time we recognise that many people want the flexibility of a part-time job in order to suit their lifestyle. We aim to make them welcome in the workplace and to provide for their needs.

We currently employ around 43,000 people and offer real opportunities to build a career within the Company. This year we invested an average of six days training per employee, with structured training programmes including both on and off the job training.

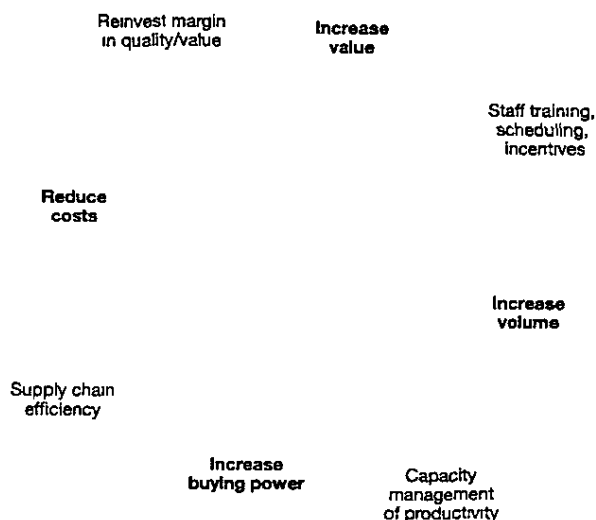
Mitchells & Butlers is committed to ensuring all retail management and staff have the skills to perform their roles effectively. A significant amount is spent on training managers and team leaders through the Competence in Retail Management Certificate and Management Foundation Course programmes. Each year, around 2,500 of our retail employees are trained through these programmes, giving them the essential skills to operate our businesses legally and safely. This training also gives managers the knowledge required to provide on-site training to retail staff.

The National Certificate of Personal Licence Holders (NCPLH) is an essential qualification to progress to manager level and employees can work towards this with an experienced manager; this year, over 3,000 employees achieved their NCPLH with the Company. The internal succession rate to the post of assistant manager is around 70% for most of our brands and formats.

Our training programmes are not only fundamental to motivating our employees, giving them the skills to achieve their ambitions but also, crucially, they underpin our commitment to operate our businesses safely. Notably, we have rigorous training about the responsible retailing of alcohol to give our retail employees the expertise and the confidence to serve our customers correctly. Our retail teams currently refuse service to approximately 50,000 people a month who are unable to provide proof of their age.

The Company has two graduate recruitment schemes: the Corporate Graduate programme and the Vocational Graduate Programme, placing employees on a fast-track to a retail management position. Within any given year, we have approximately 60 graduates participating in our management training schemes and for the second year running we achieved a Springboard UK award for Best Student Placement for a Large Organisation.

Fig 6 Value and volume cycle



These new menus are part of a carefully trialled and targeted margin investment programme that we have started to implement within pub restaurants to drive profitable volume growth in response to a slowing in performance towards the end of last year, particularly in the Vintage Inns format. The initial customer response to these new menus is very encouraging.

In the High Street, which accounts for 25% of sales, the successful evolution of our formats has generated like-for-like sales ahead by 2.5%, with strong growth in food sales. Trading in central London has remained buoyant.

Trends following the smoking ban in England are currently broadly in line with those seen in the first year of the ban in Scotland where there was a slowing of overall sales in the winter months. In the 20 weeks since the introduction of the smoking ban in England, same outlet like-for-like sales for our English pubs, excluding those previously converted to non-smoking, increased by 1.5%, with food sales up 5% and drinks sales marginally up. In the last seven weeks these pubs grew by 0.7% on a same outlet basis. We continue to be encouraged by the improvement in same outlet like-for-like sales this year within our Scottish pubs, up 6.7%, partly helped by the recent Euro 2008 football, and we believe that the overall impact of the ban will be beneficial over time to larger, well invested pubs with an attractive food offer.

The Company has had an established, comprehensive employee communications programme in place for over 10 years. A variety of channels such as team meetings, conferences, in-house publications and the intranet keep staff informed on matters relating to the Company and its performance. Two-way communications between senior management and employees are driven primarily through regular discussion groups at the corporate level and operational communications forums. A formal Business Forum, at which Executive Directors meet with elected employee representatives to discuss business concerns, takes place annually.

The yearly corporate employee satisfaction survey gauges staff opinion on a wide variety of Company issues and working practices in a confidential manner and provides a continuous objective measure for employee satisfaction and engagement. This year the response rate to the survey improved for the fourth consecutive year and the continuing positive trend relating to questions about employee engagement is encouraging, with over 90% of employees feeling satisfied and motivated by their work. More than 94% of Mitchells & Butlers' employees would recommend the Company as a good place to work.

Current trading

Current trading has been resilient with same outlet like-for-like sales growing by 1.4% in the seven weeks to 17 November. Trading in the three weeks to 17 November has shown a material improvement on October with same outlet like-for-like sales up 2.4% following the launch of our new winter menus. This sales growth has been generated against the background of the start of the first winter period of the smoking ban in England and Wales, a continuing volume decline in the on-trade beer market in October of approximately 8% and a more uncertain consumer environment.

7 weeks ended 17 November 2007	Same outlet like-for-like sales growth	Uninvested like-for-like sales growth
Residential	1.3%	(1.0%)
High Street	2.5%	1.9%
Total	1.4%	(0.5%)

Note: These results include the Acquired Sites.

Within the Residential estate, Local Pubs have traded well, with same outlet like-for-like sales growth of 3.3%, reflecting large drinks market share gains, continued strong food sales growth and the benefit of the Rugby World Cup. The Rugby tournament however, had a negative impact on our pub restaurants where like-for-like sales have been marginally positive overall, although they were up 2.6% in the last three weeks following the launch of the new menus with their enhanced quality and value.

Our operational focus remains on driving profitable sales growth and generating strong cash flows. We will also continue to look at the best opportunity to release value from our property to benefit shareholders.

Karim Naffah,
Finance Director

Mitchells & Butlers has performed well despite a more challenging consumer environment in the second half of the year. Earnings per share grew by 21.2% in the year, underpinning the proposed increase of 16.3% in the annual ordinary dividend to 14.25 pence per share, in addition to the Special Dividend of £1 per share paid to shareholders in October 2006.

Strong operating performance

Our value and volume strategy, combined with the unrivalled quality of our pub properties, has been the key to our resilient trading performance. Like-for-like sales during the year were up 3% and net retail operating margins were broadly maintained, despite £8m of additional regulatory costs and £14m of closure and pre-opening costs arising from the conversion of the Acquired Sites to our brands and formats.

Investing for high returns

In the year we invested £261m in the estate, including £131m of expansionary capital of which £80m was spent on converting the Acquired Sites, delivering a sales uplift of approximately 20% against the levels at which the sites were acquired. Our core expansionary investment over the last two years has continued to deliver incremental pre-tax returns of 20%, whilst the business as a whole achieved a post-tax cash return on capital employed of 10.8%.

Value-creative disposals

Alternative use and investment demand for individual pubs reached record levels during the year and we took the opportunity to dispose of some of our smaller pubs, reinvesting the proceeds in high return projects within the estate. During the year, we raised £162m of cash from disposals, including £101m from the sale of 102 smaller, community pubs to Trust Inns Ltd.

Releasing additional value from property
We conducted during the year a rigorous review to determine whether the Company's properties would be valued more highly if they were separated from the operations of the business. Our market-testing in the spring confirmed that specialist investors would place a substantially higher value on our properties than that which was implied in our stock market valuation. We examined alternative structures to access this upside for shareholders and concluded that a joint venture would offer the best route to crystallise a substantial proportion of the property value, whilst protecting the integrity of the existing and proven integrated operating model. Following a competitive process, we negotiated terms with R20 for the sale of a 50% stake in a £4.5bn joint venture, comprising the majority of our freehold and long leasehold properties. Shortly before finalising the agreement, the sudden debt market crisis in July meant that the transaction could not be implemented.

Financial review

Hedging arrangements

In the final stage of the planned transaction, Mitchells & Butlers and R20 separately entered into debt hedging arrangements ('hedges') comprising interest rate and inflation swaps intended to be contributed to the joint venture. These were required to support the delivery of the financing package. The turbulence in the debt markets since July has led to long-term interest rates falling. At the same time, long-term inflation expectations have risen, whilst the market liquidity for such instruments has sharply diminished. These three factors combined to produce a post-tax deficit on the hedges of £155m, against the mark-to-market values at the balance sheet date. This is not a cash loss to the business, as the hedges have not been closed out and we continue to expect that they will be utilised in a future property based refinancing, once debt markets have stabilised.

Property valuation

Given the continued focus on our estate, we completed a revaluation of the properties as at 29 September 2007. The revised value of £5.0bn is included in our financial statements and represents a net increase of £1.1bn against the historical accounting approach. Whilst this accounting valuation is consistent with the existing structure of the Group, our property valuers have advised that,

within an OpCo/PropCo structure, our freehold and long leasehold properties would support a market rent of £280m and a rental yield of 5.8%, with an indicative value of £4.8bn before any allowance for purchaser's costs. This valuation covers only the rent from these properties and therefore excludes the other cash flows received by the operating company which, based on trading in the year ended 29 September 2007, would equate to some £200m of underlying EBITDA.

Pensions

After £40m of additional contributions, there was a pension deficit of £18m at the end of September under IAS19, with more prudent mortality assumptions applied following the actuarial valuation exercise in the year. The formal actuarial valuation as at 31 March 2007 indicates a larger deficit of around £250m, reflecting the more conservative gilts basis for discounting future liabilities. In line with the new pension regulations, the Company is finalising with the Trustees a formal recovery plan to close this deficit by 2017. As part of this plan, in addition to ordinary annual service contributions, we expect that further contributions of £24m will be made in each of the next three years.

Summary

Our operational focus remains on driving profitable sales growth and generating strong cash flows. We will also continue to look at the best opportunity to release additional value from our property to benefit shareholders.

Karim Naffah
Finance Director

Financial review

Total revenue for the year was £1,894m, up 10.1% on last year, including the first full year of ownership of the Acquired Sites purchased from Whitbread PLC in July 2006.

Strong like-for-like sales growth continued in the year in both Residential and High Street areas, reflecting resilient trading in more challenging conditions in the second half and further significant market share gains.

Like-for-like sales	Same outlet*	Uninvested*
Residential	3.1%	1.5%
High Street	3.0%	2.3%
Total	3.0%	1.7%

* Excludes the Acquired Sites

With the success of our ongoing sales and marketing activities, same outlet food sales and drink sales were up 5.1% and 2.2% respectively, with average retail prices up less than 2%, reinforcing our value position in a market characterised by real price increases.

Our increased share of the drinks market and the increasing scale of our food volumes have helped us to mitigate continuing pressures on the cost of goods purchased, including drinks duty rises and global food inflation. Overall gross margins were slightly below last year, reflecting a further shift in the sales mix towards the higher growth but lower margin categories of food and wine.

Pubs and bars
Financial year 2007

+1.0%

Revenue £968m

+4.7%

Same outlet like-for-like sales**

+19.2%

Revenue £908m

+1.0%

Same outlet like-for-like sales**

+6.7%

Operating profit* £191m

+3.0%

Uninvested like-for-like sales**

+11.5%

Operating profit* £145m

+0.1%

Uninvested like-for-like sales**

* Before exceptional items
** Excluding the Acquired Sites

* Before exceptional items
** Excluding the Acquired Sites

By continuing to improve employee productivity, our pub employment ratio in the estate was maintained at below 24% of sales, despite further increases in the National Minimum Wage adding £7m to our labour costs. As a result the net retail operating margin at 17.9% was broadly in line with last year, despite £14m of one-off closure and pre-opening costs incurred in connection with the conversion of the Acquired Sites.

We invested £261m in the year, of which £8m related to the purchase of the Acquired Sites and £80m was invested to convert the majority of those sites to Mitchells & Butlers' brands and formats. In the existing estate, £122m was invested to maintain the high levels of amenity in the pubs and in the continuing development and evolution of our brands and formats and £51m was spent on expansionary projects. During the year six new pubs opened and 65 existing pubs were converted to one of our brands or formats to uplift their sales and profits. We are continuing to achieve an incremental, pre-tax return of 20% on the core expansionary projects of the last two years.

During the year we raised £162m of cash from disposals, including £101m from the sale of 102 of our smaller, community pubs to Trust Inns Ltd. As a result, net capital investment during the year was £99m.

In addition to the strong retail performance, Standard Commercial Property Developments Limited ('SCPD') realised a property development profit of £7m in the year. As a result, total operating profit before exceptional items was £343m, up 11% on last year.

Pubs & Bars

	FY 2007	Growth
Revenue	£968m	1.0%
Operating profit*	£191m	6.7%
Same outlet like-for-like sales**		4.7%
Uninvested like-for-like sales**		3.0%

* Before exceptional items
** Excluding the Acquired Sites

After the disposal of 86 managed pubs, eight transfers to business franchise and one pub transferred to the Restaurants division, there were 1,129 managed pubs in the Pubs & Bars division at the end of the period, including 28 Acquired Sites. There were on average 1,159 managed pubs trading during the year.

Revenue was up 1%, including £16m from the Acquired Sites transferred to the division following conversion. Excluding those Acquired Sites and adjusting for

major disposals made last year and at the beginning of this year, revenue in the core Pubs & Bars estate was up 3.5%.

Pubs & Bars continued to achieve market share gains in drink sales, as a result of the widening gap between our amenity, product range and value for money and that of the competition. Food sales in the year were up 12.5% (excluding the Acquired Sites) driven by growth in the residential pubs, notably Sizzling Pub Co and Metro Professionals, as well as by the Town Pubs and the central London estate.

The review of machines stakes and prizes shortly before the beginning of the year raised the maximum stake to 50p and the maximum prize to £35. These changes were modestly beneficial to machine sales although the negative impact of the smoking ban introduced in July meant that machine sales were slightly down for the year as a whole.

A total of 56 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co., Ember Inns and the Metro Professionals format.

As a result of tight cost control and improved employee productivity, Pubs & Bars operating profit of £191m before exceptional items was up 6.7% in the year and the net operating margin increased from 18.7% last year to 19.7%. Excluding the contribution from the Acquired Sites and the impact of major disposals in the comparative year, the existing Pubs & Bars estate increased operating profit by 11.9%.

Restaurants

	FY 2007	Growth
Revenue	£908m	19.2%
Operating profit*	£145m	11.5%
Same outlet like-for-like sales**		1.0%
Uninvested like-for-like sales**		0.1%

* Before exceptional items
** Excluding the Acquired Sites

Following the disposal of 15 pubs and eight transfers to business franchise, there were 787 managed pubs in the Restaurants division at the end of the period, including 191 Acquired Sites, two new individual pubs and one pub transferred from Pubs & Bars. There were on average 768 managed pubs trading during the year.

Revenue was up 19.2%, including £160m from the Acquired Sites. Excluding the Acquired Sites, there were on average 591 pubs trading during the year and in these pub restaurants, revenue grew by 2.7%, with food sales up 3.9% and drinks up 0.7%.

The Restaurants division successfully integrated the Acquired Sites and completed the majority of the conversions during the year as planned. Growth in the rest of the estate slowed during the year primarily as a result of increasing economic pressure on mid-market consumers and greater intensity of competition in pub food. Management focus is on continuing to evolve the offer in our brands and formats, combined with further efficiency and productivity improvements.

Restaurants division operating profit of £145m before exceptional items was up 11.5% on last year, including £16m from the Acquired Sites. The net operating margin fell from 17.1% last year to 16.0% due to the closure and pre-opening costs associated with the conversion of the Acquired Sites and the comparatively low margins achieved by those sites prior to conversion. Excluding the Acquired Sites, the Restaurants estate increased operating profit by 4% with a net operating margin improvement of 0.2 percentage points.

Standard Commercial Property Developments Limited ('SCPD') generated £18m of revenue and £7m of operating profit in the year, the majority of which related to the sale of a long-term development property in Burton-on-Trent, which was completed in August.

Property backed refinancing and related hedging arrangements. Substantial progress was made in the summer on structuring an attractive property transaction, with terms largely concluded with R20 (the investment vehicle of Robert Tchenguiz) based on the sale of a 50% stake in a £4.5bn property joint venture comprising approximately 1,300 pubs and £240m of rent.

In the final stage of the planned transaction, the Company and R20 separately entered into certain interest and inflation hedging arrangements intended to be contributed to the joint venture. However, the sudden, rapid deterioration in debt market conditions in late July meant that a financing package could not be obtained and the transaction could not be executed. The hedges remain in place as it is the Board's intention to utilise these financial instruments in a future property based refinancing once debt markets have stabilised.

Financial review continued

Property revaluation

Given the continued focus on the value of our estate, we have completed a revaluation of our fixed assets based on an updated valuation by our property valuers, Colliers CRE, of our freehold and long leasehold properties as at 29 September 2007. For accounting purposes, this valuation represents the aggregate value of each individual pub, rather than a portfolio approach, based primarily on the trading cash flows. The revised value of the properties at £5.0bn represents a net increase of £1.1bn compared with the historical accounting basis. We will continue to revalue our properties each year on a rolling basis.

The accounting valuation of the property is consistent with the existing structure of the Group. However, based on advice received from Colliers CRE, all of the freehold and long leasehold properties within an OpCo/PropCo structure would support a market rent of £280m and a rental yield of 5.8%, with an indicative valuation of £4.8bn for the PropCo, before any allowance for purchaser's costs, based on a 35 year, RPI-inflating lease. This valuation approach relates only to the rent from the freehold and long leasehold pubs and therefore excludes the cash flows received by the operating company from these pubs, as well as other company cash flows including those from existing short leasehold pubs. Based on the year ended 29 September 2007, this would equate to approximately £200m of underlying EBITDA.

Exceptional items

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

The interest rate and inflation hedging arrangements that the Company entered into in July 2007 provide an economic hedge against the future anticipated cash flows associated with a property based refinancing, however they do not qualify for hedge accounting as defined in IAS39. Movements in their fair values are therefore recognised directly in the Group income statement, within exceptional finance costs. The total fair value movement of these instruments during the year reported within exceptional finance was £(221)m, (£(155)m after tax).

An exceptional loss on property related items of £23m (£17m after tax) arose during the year. This was caused by impairment arising from the revaluation of the property portfolio of £45m (£32m after tax) partly offset by net profits on the disposal of properties of £22m (£15m after tax), primarily related to the sale of 102 pubs to Trust Inns Ltd on 6 October 2006.

Exceptional costs of £4m (£3m after tax) were incurred in the first half of the year relating to the integration of the Acquired Sites, whilst a further £7m of costs (£7m after tax) were incurred in the second half of the year, relating primarily to professional advisers' fees in relation to the Board's review of a potential property refinancing and the proposed joint venture transaction with R20.

The tax impact of the above exceptional items is a £74m credit. In addition, there is a further £26m of exceptional deferred tax credits (giving a total of £100m), primarily relating to the change in the corporate tax rate from 30% to 28% in April 2008.

Finance costs and revenue

Finance costs during the year were £153m before exceptional items, £35m higher than last year. Finance revenue of £6m was achieved on the Group's cash balances being £3m lower than last year. The net increase in finance costs of £38m against last year reflects the higher level of debt in the Group following the purchase of the Acquired Sites in July 2006 and the payment of a Special Dividend of £486m to shareholders in October 2007.

Net finance income from pensions was £11m, £3m higher than last year due to an increase in the expected return on the assets in the pension scheme compared to the charge for the liabilities.

The Group's blended net interest rate for the year was 5.5% including the impact of the net finance income from pensions.

Taxation

The tax charge for the year was £62m before exceptional items. This is an effective rate of 30% of profit before tax, one percentage point lower than the previous year. The decrease has been achieved following the resolution during the second half of the year of various outstanding items with HM Revenue & Customs.

As part of the exercise to revalue assets at the year end, management also reviewed the Group's deferred tax provision for unrealised gains under IAS12. This review has resulted in a prior year adjustment which has the effect of increasing the deferred tax provision in the opening balance sheet by £76m. This adjustment has no impact on previously reported profits. In addition, as a result of the revaluation, the deferred tax balance at 29 September 2007 has increased by £296m.

Earnings per share

Earnings per share were 35.5p before exceptional items, 21.2% ahead of last year. In addition to the growth in operating profit, earnings per share have benefited from a 17% reduction in the average number of shares mainly as a result of the 34 for 41 share consolidation carried out in October 2006 in conjunction with the Special Dividend.

The loss per share after exceptional items was 2.5p reflecting primarily the exceptional accounting losses on the financial hedges entered into in anticipation of a property refinancing and the proposed joint venture transaction with R20.

Dividends and returns to shareholders

The Board is recommending a final dividend for 2007 of 10 pence per share. Together with the interim dividend of 4.25 pence paid on 29 June 2007, this gives a total dividend for the year of 14.25 pence, up 16.3% on last year. Notwithstanding a more challenging outlook for the economy and the market environment, the proposed increase in the ordinary dividend is underpinned by the strong underlying earnings per share performance achieved in the year. The Board remains committed to a progressive policy for dividends consistent with the growth prospects of the Company.

Subject to approval at the AGM on 31 January 2008, the final dividend will be paid on 4 February 2008 to shareholders on the register on 7 December 2007.

Since Mitchells & Butlers listed in April 2003, shareholders have received more than £1.1bn in cash through Special Dividends and share buybacks, over and above ordinary dividends paid. This represents more than 70% of the Company's market capitalisation at the time.

Cash flow and net debt

The Group's operations continue to be highly cash generative. Cash flow from operations was £447m before exceptional items but after additional pension contributions of £40m. Net capital expenditure was £99m including £80m of expenditure on the Acquired Sites, £51m of core expansionary capital investment, £122m of maintenance capital, less disposal proceeds of £162m.

Net interest paid of £145m was £38m higher than last year reflecting the increased level of debt in the business. Tax paid was £33m, £15m lower than the prior year driven primarily by £10m of tax rebates received from HM Revenue & Customs during the year. Payments totalling £52m were made in respect of the final dividend for FY 2006 and the interim dividend for FY 2007 in addition to the Special Dividend of £486m paid in October 2006. £46m was spent to repurchase shares, whilst £11m was received from the exercise of share options.

As a result, there was a net cash outflow of £399m before exceptional costs of £12m and bond repayments of £39m. This compared to a cash outflow before exceptional items of £428m last year. Net debt at the year end was £2,479m, £412m higher than last year, representing 5.25 times EBITDA.

Share price and market capitalisation
At 28 September 2007 the share price was 611p compared with 590p at the start of the financial year, an increase of 3.6%. The Company is a member of the FTSE 100 index with a market capitalisation of approximately £2.5bn at the year end.

Treasury management

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

At 29 September 2007, the Group's net debt of £2,479m consisted of the securitised debt of £2,356m, borrowings on the Group's revolving credit facility of £192m, derivatives hedging balance sheet debt of £45m, other loan notes and finance lease obligations together totalling £3m, offset by a cash balance of £117m.

Pensions

On an IAS19 basis, the Group's pensions schemes showed a deficit of £18m, (£14m after tax) at 29 September 2007 compared with £99m (£67m after tax) at 30 September 2006. The reduction in the deficit reflects the benefit of £40m of additional pension contributions paid in the year and improved investment returns, partially offset by updated assumptions of life expectancy.

The full actuarial review undertaken in the year is currently being finalised based on the value of the schemes as at 31 March 2007. The actuarial valuation adopts a more conservative basis of discounting the liabilities than is required by IAS19 and the preliminary result shows a deficit of approximately £250m. In line with the new pensions regulations, the Company is finalising with the Trustees a formal recovery plan to close this deficit by 2017. As part of this plan, in addition to the ordinary annual service contributions, it is expected that further contributions of £24m will be made in each of the next three years. The contribution for the year ending 30 September 2008 will include the payment of £20m previously committed at the time of the Special Dividend in October 2006. The level of additional contributions will be subject to review during the next actuarial valuation as at 31 March 2010.

Shareholders' funds

Shareholders' funds were £1,576m at the end of the year including the impact of the property revaluation compared with £1,209m at the start of the year which incorporates the impact of the £76m prior year adjustment.

Risks and uncertainties

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

There are a number of potential risks and uncertainties which could have a material impact on Mitchells & Butlers' long-term performance and achievement of its strategy. These risks and uncertainties arise as a result of operational, market driven, regulatory or financial factors. Mitchells & Butlers adopts a pro-active approach in this area with each member of the Executive Committee taking responsibility for the management of the specific risks associated with their department, and a dedicated Group Assurance team who report through the HR Director and General Counsel to the Executive Committee and the Board. The Company also operates a Risk Management and Disclosure Forum to ensure that the impact of any new legislation is considered and that action plans are put in place to address any required changes in advance of any implementation date. Although Mitchells & Butlers has been successful in mitigating these risks in the past, there is no guarantee that it can continue to do so.

Operational factors

Brands, formats and offerings

Mitchells & Butlers' pubs and pub restaurants compete for consumers with a wide variety of other branded and non-branded pubs and restaurants as well as off-licences, supermarkets and takeaways. The large supermarket groups, in particular, often sell alcohol and especially canned beer, at greatly discounted prices as an element of their marketing strategy. In 1980, 88% of beer in the UK was sold through pubs, clubs and restaurants (the 'on-trade'). This percentage has been declining steadily, such that during 2006, 57% of beer was sold through the on-trade with the supermarkets' and off-licences' share (the 'off-trade') having increased to 43%. Competition in the eating-out market has also increased particularly as a result of the smoking ban, implemented in England on 1 July 2007, which has led to many pubs either beginning to sell food, having not done so previously, or improving their food offers.

Changes in consumer tastes in both food and drink, for example the heightened awareness of healthy eating, and demographic trends over time may affect the appeal of Mitchells & Butlers' pubs and pub restaurants to consumers.

This may be especially so if the Group does not anticipate, identify and respond by evolving its brands, formats and offerings adequately and sufficiently promptly to reflect such changes in consumer requirements and preferences, particularly in regard to the growth in the eating-out market.

Mitchells & Butlers has a Sales and Marketing executive for both the Pubs & Bars and Restaurants divisions, chaired by the Divisional Managing Director, which actively monitors consumer trends and the corresponding relevance of Mitchells & Butlers' brands, formats and offerings. Trials of new operating formats and the evolution of existing offers are undertaken every year as part of this programme. A recent example has been the development of a format called Pub & Carvery, which was first trialled over two years ago and is now trading in 58 sites.

Supplier dynamics

Food and drink purchases account for the majority of Mitchells & Butlers' supply costs. Mitchells & Butlers' relative size in the pub and pub restaurant sector, particularly following the purchase of the Acquired Sites in July 2006, has allowed it to renegotiate supplier contracts successfully in the past year. In addition, as the Group's legacy tied drinks arrangements have reduced, Mitchells & Butlers has taken advantage of its increasing freedom to increase the choice available to customers on favourable terms.

However Mitchells & Butlers is contractually bound to use certain suppliers. Most notably, as part of its acquisition of the 550 former Allied Domecq sites in 1999 Mitchells & Butlers was required to purchase a fixed minimum volume of Carlsberg-Tetley products until 12 December 2007. Mitchells & Butlers is also tied for approximately half of its soft drinks volume to Britvic plc until February 2008. If Mitchells & Butlers was unable to satisfy its minimum purchase volume obligations to a material extent under these agreements, it would be obliged to pay liquidated damages. During the year, Mitchells & Butlers took the opportunity to enter into a new, shorter-term agreement with Carlsberg-Tetley, which has given more flexibility to the business and negotiations are well advanced to ensure that the Company's soft drinks purchases are renegotiated on more favourable terms.

In food, the larger number of food ingredients and the more fragmented nature of food suppliers on the world commodity markets means that Mitchells & Butlers has a greater opportunity to source food purchases from alternative

suppliers than is the case with the drinks market. However, Mitchells & Butlers continues to be exposed to the risk of higher food prices depending on global availability and demand for products.

Mitchells & Butlers is also exposed to movements in distribution costs for food and drinks as suppliers' increased fuel costs may be passed on to the Company.

Mitchells & Butlers is a large commercial user of gas and electricity and is therefore subject to fluctuations in utility costs (for example, both gas and electricity costs rose sharply during FY 2006 due to global price increases). In order to reduce exposure to short-term fluctuations in energy prices, Mitchells & Butlers has a rolling programme of forward purchases for three, six, nine and 12 months in the future. An energy awareness team has been established to review energy usage and is working with the business to continue to find ways to promote further efficiencies in energy consumption.

Market driven factors

Consumer expenditure

The Group's revenues are linked to the economic climate in the United Kingdom and, to a much lesser extent, in Germany. Changes in consumer expenditure may arise as a result of the general economic situation, such as in the latter part of this year when rising interest rates and an increased indirect tax burden appear to have impacted consumer confidence, or more localised specific factors such as decreased activity in the financial markets or from reduced tourist visits as a result of terrorist activity throughout the world and in London. Consumer expenditure in pubs may also vary through consumer perceptions and attitudes to safety and public order and localised national or international scares as a result of food contamination.

However, Mitchells & Butlers has over 2,000 individual businesses and its range of brands and formats targeting different income and consumer groups mitigates this risk. This wide range of offers provides the flexibility to respond to changes in consumer behaviour through either the evolution of the offer or the substitution of an alternative operating format or brand at a particular location.

Seasonality

Customer visits to the Company's pubs and pub restaurants are generally higher during holiday periods, such as Christmas and New Year, and over bank holidays. Frequenting of pubs and pub restaurants is otherwise slightly lower during the winter months than in the summer. Visits to pubs and pub restaurants are also

affected by the weather, with warm sunny weather being particularly advantageous for pubs and pub restaurants with gardens. Mitchells & Butlers' marketing strategies address the impact of seasonality, wherever possible, to capture demand in busy periods and to encourage customers to visit in quieter periods.

Regulatory factors

Mitchells & Butlers operates in a heavily regulated sector and changes in regulation can have a significant impact upon Mitchells & Butlers' business. Some examples of the regulatory changes which could affect Mitchells & Butlers include

Smoking bans

Approximately 90% of Mitchells & Butlers pubs are in England where a full ban on smoking in pubs came into force on 1 July 2007. Trading in Scotland in the first year after its ban came into force (26 March 2006) was less strong than in England in the same period with total like-for-like sales up 2% with food sales up 8% and drink sales flat. Since then, sales have continued to grow but at a slower rate than in England as new users sample the smoke-free atmosphere. Our experience so far suggests that large pubs, with the capability to serve high volumes of good food at attractive prices, will benefit from a ban on smoking. However, smaller pubs, with limited food capacity and a bias towards beer sales and machine income are likely to suffer.

National Minimum Wage

The Government has increased the minimum wage by an average of 5.6% per annum over the last five years, materially above the rate of inflation. It currently stands at £5.52 per hour having been increased by 17p for adults in October 2007. The Low Pay Commission has recommended that any further increase in the national minimum wage should remain in line with general wage inflation, although to date this recommendation has not been endorsed by the Government. In addition, in October 2007 the Government increased the statutory holiday entitlement of all employees from 20 to 24 days, which further increased the Group's employment costs. Mitchells & Butlers has in the past successfully mitigated these statutory increases in employment costs through productivity improvements. These measures have allowed the Group to maintain the ratio of employment costs at 24% of sales in 2007.

Licensing

New licensing laws became fully effective in November 2005. Licensing matters were taken away from the Magistrates Courts and transferred to local authorities and a new requirement was introduced for

operators of licensed premises to hold a premises licence and the manager of the pub to hold a personal licence. Greater flexibility of opening hours was introduced which allows pub operators to apply to the local authority for permission to change opening hours, subject to objections from local residents, the police and other relevant agencies.

However, these groups also now have a right to ask the local authority for the premises licence to be reviewed at any time where they believe that any of the Government's licensing objectives are being compromised. As a result of such review, the local authority has the power to attach further conditions to the licence, reduce trading hours, call for a change in the pub management or ultimately suspend or revoke the licence.

Mitchells & Butlers has been successful in the vast majority of initial applications to extend previous opening hours (typically for an additional hour or two later in the week and at the weekend). The Group does not hold any 24 hour licences. Mitchells & Butlers also invests heavily in the ongoing training of its managers and staff to ensure continued compliance with licensing laws and that its pubs are operated in a responsible manner.

Changes in taxation

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

Mitchells & Butlers ensures it takes appropriate action to minimise the risks from regulation through a number of means including:

- active participation with industry organisations, such as the British Beer & Pub Association and the British Hospitality Association, ensuring that effective lobbying is carried out;
- the operation of a Risk Management and Disclosure Forum to ensure that the impact of any new legislation is considered and that action plans are put in place to address any required changes in advance of any implementation date; and
- continual consideration of operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases or other cost reductions.

Financial factors

Pension funding

Mitchells & Butlers participates in defined benefit pension schemes which give rise to various funding risks. The main risk is the variability of the amount of contributions

required to be paid to the schemes by Mitchells & Butlers in order to account for past service benefit deficits and future service benefit accruals. These in turn are impacted at any point in time by changes in life expectancy assumptions, the performance of the stock market and bond yields.

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

Mitchells & Butlers' pension risks have been mitigated by the closure of the defined benefit schemes to new entrants in 2002. As an alternative, a competitive defined contribution pension scheme is now available to eligible new employees. Mitchells & Butlers also maintains a close dialogue with the pensions schemes' Trustees and two of the Trustees are appointed by the Company. As a result of the funding deficits in the schemes, the Company has made additional contributions of £145m over and above the regular service contributions since listing in 2003 in order to proactively reduce the deficit. The Company has previously committed to make an additional contribution of £20m during FY 2008. A full actuarial valuation of the schemes was conducted during FY 2007. The results of this review are expected to be finalised in December 2007, together with a fresh schedule of contributions as required by the new pensions regulations.

Property backed refinancing and related hedging arrangements. During the year, the Company entered into certain interest and inflation hedging arrangements in anticipation of a property backed refinancing around a joint venture arrangement with R20. However, the sudden, rapid deterioration in debt market conditions in the summer meant that an appropriate financing structure was not possible and the transaction could not be executed. The hedges remain in place as the Board believes it is highly likely that these financial instruments will be used in a future property based refinancing once debt markets have stabilised. However there is a risk that no property based refinancing will occur or that the Company's strategy could change such that the hedges would need to be closed out, which would currently result in a substantial cash loss. The Company has in place a process to monitor the movement in the value of the hedges and the position is kept under close and regular review by the Board.

Corporate social responsibility

Mitchells & Butlers operates in a highly regulated industry and recognises that it has an inherent duty under its licences to

- ensure the responsible operation of its premises for guests, employees and the wider community, and
- promote the objectives of the Licensing Act 2003, namely
 - the prevention of crime and disorder
 - public safety
 - the prevention of public nuisance
 - the protection of children from harm

This is at the heart of the business and is why the Company strives to ensure that corporate social responsibility underpins its business operation at every level

Please note that the following sections provide a summary only of our policies in respect of our corporate social responsibility ('CSR') activity. A more detailed account of Mitchells & Butlers' CSR practices and corporate compliance, including case studies, can be found in our separately published Corporate Social Responsibility Review 2007 on www.mbutl.com/csrreview

Corporate governance

The Board is responsible for the Company's internal control and risk management system. The Corporate Governance report on page 30 gives details of how this responsibility is discharged.

Our Executive Committee, comprising the HR Director and General Counsel as well as the Chief Executive and the Finance Director, has adopted a Code of Ethics to promote honest and ethical conduct throughout our business. The code includes

- the ethical handling of actual or apparent conflicts of interest between personal and professional relationships,
- a requirement that any hospitality from suppliers must be approved, with a presumption against its acceptance,
- requiring full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by Mitchells & Butlers plc, and
- promoting compliance with all applicable rules and regulations that apply to the Company and its officers.

Our Business Conduct guidelines describe the standards of behaviour expected from those working for the Company. Our corporate reputation depends on all staff acting in good conscience and behaving with integrity in our dealings with employees, shareholders, customers, suppliers and all other stakeholders.

Mitchells & Butlers offers an independently administered confidential hotline, also known as a whistleblowing hotline, for any employee wishing to report any concern that they may have that they feel unable to raise with their line manager. All whistleblowing allegations are reported to and considered by the Audit Committee.

The Board takes regular account of social, environmental and ethical matters concerning the Company through the Chief Executive's regular reports to the Board, presentations to the Board at its strategy meetings and through adoption of its Code of Ethics. The Company Secretary is responsible for ensuring that Directors are made aware of and receive training in respect of such matters. Formal reporting to the Board of social, environmental and ethical matters takes place every six months.

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

A Mitchells & Butlers Risk Management and Disclosure Forum exists to monitor the Company's activities and to ensure that a consistent and proactive approach to managing risk occurs throughout the Company, including those of a social, ethical or environmental nature. The Forum aims to meet on a quarterly basis.

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

Alcohol and Social Responsibility policy. Mitchells & Butlers was one of the first companies to establish a comprehensive policy for the responsible retailing of alcohol, in 2000. Our Alcohol & Social Responsibility ('ASR') policy includes clear guidelines on the responsible operation of our pubs, the sale and promotion of alcohol, our under-18s policy, and our staff training and development programmes.

The introduction of our leading policy shaped the development and implementation of industry-wide codes of conduct. We update the policy regularly, re-launching it in October 2004 and in May 2006. In August this year we updated it again to reflect

- the acceptance of an international passport as a recognised form of identification – we continue also to accept UK Passports, UK photograph driving licences, and proof of age cards bearing the PASS hologram as recognised forms of identification,
- the tightening of guidelines around pricing, discounting and promotions across our businesses, and
- the inclusion of new information listing the units of alcohol contained in commonly served drinks.

We are determined to ensure that Mitchells & Butlers' pubs are operated in a way that fully justifies the grant of a licence for the responsible retailing of alcohol. In that regard we were pleased to be recognised by the Morning Advertiser for the second time as this year's most responsible drinks retailer in the managed pubs category.

Challenge 21

Mitchells & Butlers led the industry in 2004 when we launched our Challenge 21 campaign. It is not an over 21s only entrance policy but rather a requirement to ask for identification if a customer appears to be under 21, so as to prove that he or she is at least 18 years of age. The principle of Challenge 21 – to support and educate our staff and customers on the issues relating to under-age sales – is now firmly embedded in our Company culture. To monitor the scale of attempted under-age purchasing in our pubs, we now record all instances of refusal to serve and are currently registering around 50,000 refusals per month.

Through our various training programmes, all our retail staff, including door staff, are made aware of their responsibilities for serving alcohol and the personal penalties for failure to comply with the Licensing Act requirements

We also regularly audit our businesses to ensure our practices are being maintained and employ an independent company to perform test purchasing visits as an additional check

Responsible promotions policy
As part of our Alcohol and Social Responsibility policy we have strict guidelines in place regarding the pricing and promotion of our drinks. Any promotional activity must be approved by the Marketing Director and observe the guidelines outlined in our ASR policy

The guiding principles of the Company's policy are

- to offer guests real service and value at fair, competitive prices,
- to seek to encourage guests to return to Mitchells & Butlers' pubs, rather than to encourage increased consumption by guests during a single visit,
- to ensure that guests are offered choice and value without inducements to drink to excess. We will not, for example, offer any '2 for the price of 1' drinks promotions, and
- to encourage and support designated driver and other anti-drink/drive initiatives

Mitchells & Butlers is a member of the British Beer & Pub Association and played a central role in the formation of the organisation's code encouraging promotional activity. In addition all our promotional activity complies with the Portman Group's Code of Practice

Alcohol awareness
Mitchells & Butlers is a major contributor to the Drinkaware Trust, an independent UK-wide charitable trust with the objective of positively changing public behaviour and the national drinking culture, to tackle alcohol-related harms

Our updated ASR policy issued in August this year now includes details of units of alcohol in relation to the ABV of every alcoholic product sold in our pubs, to ensure staff can assist customers who ask for guidance. Brand specific training also highlights ABV information to managers and staff as part of all new product inductions. ABV information and responsible retailing messages are also included in some drinks menus and promotional materials, to raise staff and customer awareness

Conflict management

Mitchells & Butlers recognises that failure to identify and resolve potential sources of conflict in our pubs or on the door can have serious consequences. As a result, conflict management training is undertaken as appropriate within our retail management training, helping to reduce the risk of serious incidents and better protect both employees and guests

Conflict management training also helps our staff to manage issues associated with drugs abuse. Where there is any evidence of such in our businesses, we move rapidly to assess the situation and take appropriate, tough measures to resolve the matter immediately

Industry partnerships

Mitchells & Butlers works closely with the key authorities, including the Police, Fire, Local Authorities and the Government, in pursuit of our commitment to responsible retailing practices

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

Across the country, a number of individual Mitchells & Butlers' pubs have gained recognition from city councils and the police for running safe, responsible businesses via the Best Bar None Award scheme and City Safe schemes

We support regional Crime and Disorder partnerships and aim to participate fully in the drive against 'binge drinking' and its related effects, as outlined in the Alcohol Harm Reduction Strategy for England

We also support a number of Business Improvement District schemes ('BID's') for example Broad Street, Birmingham and the current proposal for Nottingham

Licensing Act

The Licensing Act 2003 came into effect on 24 November 2005. From that date licensed premises have been able to make use of any variations to previous opening hours granted by the relevant local authority

Mitchells & Butlers has so far applied for an average of just over one additional hour per day per pub. In making applications we sought to balance the opportunity to offer our guests more flexible opening times with respect for local communities. In the vast majority of cases our applications were successful. We do not hold – not did we apply for – any 24 hour licences

The Company's experience has been one of successful implementation, much of this due to extensive education as to the objectives of the Licensing Act and training to ensure these objectives are adhered to. We have seen a marginal increase in sales overall, but with less pressure at closing time and few instances of disorder

Smoking bans

We believe the introduction of the smoking bans will be beneficial to our businesses in the longer-term. They present us with a real opportunity to attract new customers, who did not previously use pubs because of tobacco smoke, to come into our pubs and pub restaurants across the country

Our experience since the bans came into force shows that our large pubs, serving high volumes of good food at attractive prices, are already seeing this benefit. We're continuing to develop the reputation of our pubs for serving good food at good value prices, focusing on innovation in the development of our menus and drinks ranges, to appeal to a wider consumer base arising from the ban

Gaming

Mitchells & Butlers was involved in the creation of the first gaming industry code of practice in the 1990s that aimed to prevent under 18s from playing pub gaming machines. The Company has contributed for many years – in cash and in kind – to charities such as GamCare that work in the area of treatment for problem gamblers. In recent years, the Company's contributions have been made via the Responsibility in Gambling Trust. A Mitchells & Butlers' senior manager is a trustee in this organisation

Mitchells & Butlers, through its support of the British Beer & Pub Association, has worked closely with the Gambling Commission on the drafting of the Gaming Machine Code of Practice, which replaced the industry's voluntary Code from 1 September 2007

Good food

As the food supply chain becomes increasingly complex, we take into account a number of factors when purchasing our food, including the health and safety of our guests, food quality, provenance and price. With large scale national brands competing in different markets, we require our suppliers to guarantee the supply of large quantities of quality ingredients for the life of a menu. Our objective is to offer competitively priced dishes of appropriate quality and provenance. In some instances this means a regional supplier and in others worldwide suppliers.

The Company carries out an assessment of the environmental policies and practices of its major food suppliers. Growers and farmers who supply Mitchells & Butlers are required to comply with the Euro-Retailer Produce Working Group's standard of good agricultural practice, known as the EurepGAP Standard.

Mitchells & Butlers also abides by the Code of Ethics issued by The Chartered Institute of Purchasing & Supply. Our guiding principles on corporate procurement are to:

- enable the Company to conduct its procurement activities in a safe, ethical and professional manner,
- exclude suppliers that disregard health, safety and welfare,
- ensure all personnel conform with national and EU laws,
- ensure representatives are fair and reasonable with suppliers,
- exclude suppliers that exploit people unfairly, and
- utilise suppliers that preferentially conserve the environment.

We aim to offer a broad range of menu items across our estate so guests seeking healthier options have plenty of choice. Focus on menu development has enabled us to offer guests more variety, from sharing 'small plate' dishes in Ember Inns or hand-cut Maris Piper chips in our Metro Professionals format to the Best of British range in Cornerstone, our successful community pub format. We have developed fresh dishes that are healthier and tastier, with a wider taste profile and better provenance – for example, organically farmed Shetland salmon features on the new Vintage Inns menu. Vegetarian options are also now available across all our pubs.

We continue to develop our menus with the focus to improve nutritional content. In August this year, Harvester came top in a national comparison of family restaurant chains, carried out by an independent dietician, on their offer of healthy dishes for children.

Following the successful launch of nutritional data on the Harvester website in 2006, Toby Carvery will also be launching a nutritional breakdown of all menu items in late 2007.

Environment

Mitchells & Butlers takes its environmental responsibilities seriously and has a policy of seeking continuous improvement, with particular focus on recycling and energy usage.

We have an established recycling programme for both glass and cardboard in our businesses. In the last 12 months we recycled over 14,000 tonnes of waste.

We are continuing to make excellent progress in energy saving and, in September, we opened our first 'green' business, designed to trial a number of energy saving measures, at the Toby Carvery, Banbury.

Health and safety

The Company strives to provide a safe environment for all employees, guests and other visitors to its premises and to comply with relevant health and safety legislation. In addition, the Company:

- aims to protect the health of employees with suitable, specific work-based strategies,
- seeks to minimise the risk of injury from Company activity, and
- ensures that sufficient resources and information are made available and suitable management systems are in place to address health and safety matters.

The Board is responsible for ensuring that sufficient resources are available to implement its Health and Safety policy. Compliance with Company policy is monitored and audited centrally and a comprehensive annual health and safety report is produced for the Board.

We use a major, independent safety and assurance company to audit and report on safety practices in all businesses. These inspections, which take place at least twice a year, form an essential element of our due diligence and include:

- independently verified means of monitoring safety standards,
- consistent audit systems across all businesses,

- an independent assessment of standards combined with technical support on improvement, and
- education and training provision for businesses failing to meet our expectations as to standards.

In addition to the Company's internal safety experts, leading consultants in the fields of food safety and fire safety are also retained. As a result of the audits, the management of health and safety, food safety and fire safety is constantly reviewed and improvements made where necessary.

Employees

Please refer to section on operational excellence in the OFR on page 15.

Community

Mitchells & Butlers is fully aware that each one of our businesses has an impact on its local community. We aim to ensure that this impact is always positive and we pursue this through a carefully planned blend of local and national initiatives.

Our pub managers raise thousands of pounds for charity. They are supported via the Company's Community Awards and celebrated via the annual Heart of the Community Awards. These recognise the efforts of our employees in forging good relations with their local communities. A prize fund of £25,000 is collectively received by the award winners for donation to their individually chosen good cause.

Our Employee Community Award scheme encourages our employees to support a charity through their own fundraising activity or voluntary work. During the last year £40,000 has been donated by them to a variety of charities as part of the scheme.

Throughout the year we have also made a number of in-kind donations such as offering use of Company facilities such as meeting rooms, free of charge, and donating complimentary meals in our businesses to local community groups, charities and schools.

Our brands are also key supporters of national and local charities of their own choice. Harvester restaurants have raised £33,500 over the last 12 months for the children's charity Make-A-Wish Foundation UK. In March, Ember Inns launched its second annual 'Drunk Pink' fundraising campaign for leading charity Against Breast Cancer. All Ember Inns pubs donated 5p per glass of rose wine sold, raising over £17,000 for the charity.

Around 600 pubs including Ember Inns, O'Neill's and Hollywood Bowl offered customers a free hot drink, in return for a voluntary donation, as part of their involvement in Macmillan Cancer's World's Biggest Coffee Morning in September

We have marked our third year of partnership with Barnardo's with a further £50,000 donation. Employees have also supported the partnerships through fundraising activities and raised an additional £12,600

As a leading company with its headquarters in Birmingham we also sponsor a number of successful arts organisations in the city. Partnerships include the City of Birmingham Symphony Orchestra (CBSO), Birmingham Royal Ballet (BRB), The Birmingham REP and ExCathedra

Our special CBSO On the Road programme enters its fifth year of community based concerts, performed by members of the orchestra around the Midlands region. The concerts allow community organisations to experience a performance from professional musicians while providing an excellent fundraising opportunity. Our long-standing relationship with the CBSO was recognised in this year's Jaguar Arts & Business Awards, where the partnership won the inaugural Champion of Champions award

This year our sponsorship of the Birmingham Royal Ballet has secured additional funds from Arts & Business enabling the BRB to host a series of educational dance workshops in primary schools across the West Midlands

Including these additional funds from Arts & Business, the Company's total corporate donations were over £215,000 (2006, £200,000)

Our role as good neighbours
Our pubs and pub restaurants play an important role in the heart of thousands of communities across the UK. As a Company we committed to encouraging and supporting our businesses in this community role. Through schemes such as Pubwatch and via our managers taking part in Residents Association meetings, we are able to establish better communication and develop valuable discussion forums for handling and resolving local issues

The OFR's intent is to provide information to shareholders and should not be relied upon by any other party or for any other purpose. This OFR, and other sections of this Annual Report, contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The OFR and other sections of this Annual Report contain certain forward-looking statements which are made by the Directors in good faith based on the information available to them up to the date of their approval of the financial statements and the Company undertakes no obligation to update these forward-looking statements. The forward-looking statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information. Nothing in this Annual Report should be construed as a profit forecast.

The OFR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are of significance to Mitchells & Butlers plc and its subsidiary undertakings when viewed as a whole.

Directors' report

The Directors present their report for the year ended 29 September 2007. This Directors' report should be read in conjunction with the Chairman's statement and the Operating and financial review (the 'OFR') on pages 6 to 27, including the Chief Executive's review, the Business review, the Finance Director's report, the Financial review and Corporate governance report (which are incorporated in this Directors' report by reference). Details of the Group's policy on addressing financial risks are given in the OFR and details about financial instruments are shown in Note 21 to the financial statements. Together these sections include information about the Group's business, its financial performance during the year, likely developments, and any principal risks and uncertainties associated with the Group's business.

Principal activities

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants, with an estate of 2003 sites as at 29 September 2007, principally located in the UK, and with 42 pub restaurants in Germany.

Share capital

On 1 October 2006, the Company had 486,910,806 ordinary shares of 7½p in issue. On 18 October 2006, having been approved by shareholders, the share capital of the Company was consolidated in the ratio of 34 new ordinary shares of 8½p for every 41 existing ordinary shares of 7½p. As at 29 September 2007, 403,779,693 ordinary shares of 8½p were in issue. 1,241,969 of these shares were held in Treasury and the Company's employee share trusts held 1,070,449 shares at the year end. At the 2007 AGM, shareholders passed a resolution to permit the Directors to undertake market purchases of up to 40,346,510 of the Company's shares. This authority will expire at the earlier of the 2008 AGM or 1 May 2008.

Refinancing and return of funds to shareholders

Following the refinancing that was completed in September 2006 and the share capital consolidation that occurred on 18 October 2006, the Company paid a Special Dividend of £1 per share on 25 October 2006 as an interim dividend for the year ending 29 September 2007.

Final dividend

The Board recommends a final dividend for the year ended 29 September 2007 of 10 0p per share to be paid on 4 February 2008 to shareholders on the register at close of business on 7 December 2007. This makes a total dividend, including the Special Dividend, for the year of 114 25p per share (2006 12 25p per share).

Securities and Exchange Commission ('SEC') registration

Since listing in 2003, the Company has been registered with the SEC under the US Securities Exchange Act of 1934 (the 'Exchange Act'). However, the fact that the presence of US shareholders was largely a legacy of the demerger from Six Continents in 2003 and the increasing costs of maintaining this US registration prompted the Company to seek to terminate its Exchange Act registration. Following changes to the SEC rules implemented in June 2007, the Company was able to file to terminate its registration under the Exchange Act. This termination took effect on 4 September 2007 and accordingly the Company no longer has any reporting requirements under the Exchange Act.

Substantial shareholders

As at 28 November 2007, the Company had been notified of the following beneficial interests (3% or more) in its shares:

AXA S.A.	9.86%
Credit Suisse Securities (Europe) Limited	5.29%
The Royal Bank of Scotland Group plc	4.19%
Marshall Wace Core Fund Limited	4.07%
Legal & General Group Plc	4.03%
Elvida Group Limited	4.00%
MF Global UK Limited	3.85%
Deutsche Bank AG	3.68%
Violet Capital Group Ltd	3.00%

Directors

Details of the Directors who served on the Board during the year are shown on page 31. There were no changes to the Board during the year.

Adam Fowle was appointed to the Board on 1 October 2007. Tony Hughes will stand down from the Board on 31 December 2007.

Interests of the Directors and their immediate families in the issued share capital of the Company are set out in the Remuneration report on page 44.

Directors' indemnity

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

Employees

The Group employed an average of 42,741 people in 2007 (2006 38,677). Details of the Group's employment policies are shown on page 15 of the OFR.

Employee engagement

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

Sharesave Plan

In June 2007, options were granted to 2,498 employees over 938,905 shares at 711p per share, a 20% discount on the market price. On 1 October 2006, the Company's first Sharesave offering matured and 994 employees were able to exercise options over shares priced at 169p per share when the market price was 586 33p per share. This represented a gain on their investment of over £22,000 for those employees saving the maximum amount under the plan.

Share Incentive Plan

During the year 115,121 shares were allocated by the Share Incentive Plan trustee as free shares to 9,967 eligible employees subject to the plan rules.

Executive Share Option Plan

Following the 2006 AGM, no further awards are to be made under this plan. 3,796,471 shares under option and priced at 252 5p per share vested during the year.

Performance Restricted Share Plan

During the year, 65 employees were granted nominal cost options which will vest subject to the achievement of performance conditions as set out in the Remuneration report on page 38. 1,033,897 shares under option vested during the year.

Short Term Deferred Incentive Plan
At the discretion of the Remuneration Committee, Directors may elect to take 50% or more of their annual bonus in shares. These shares are deferred for three years. A matching award of shares is made by the Company, which is also deferred for a three year period and is released subject to the satisfaction of a three year performance condition.

252,979 shares were released under this plan during the year. The Executive Directors' maximum accrued entitlements for the year and for future release are set out on page 42.

Headroom limits

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 plans. At 29 September 2007, the position under the 5% in 10 years' limit for discretionary plans was that shares equivalent to 2.06% of the ordinary share capital had been allocated and under the 10% in 10 years limit for all share plans was that shares equivalent to 2.4% of the ordinary share capital had been allocated. The Company uses an Employee Benefit Trust to acquire shares in the market when appropriate to satisfy share awards.

Health and safety

It is important to the Group to provide and maintain a safe environment for all employees, customers and other visitors to its premises. The Group complies with relevant health and safety legislation. Details are included on page 26 of the OFR.

Environmental and social responsibility

Mitchells & Butlers recognises that it is part of a wider community and recognises that it has a responsibility to act in a way that respects the environment and the social wellbeing of others. A summary of the Company's approach to these issues is set out on page 26 of the OFR.

Policy on payment of suppliers

Mitchells & Butlers plc is a holding company and has no trade creditors. The policy of its principal operating subsidiaries is to agree particular terms with major suppliers and abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in the month following that in which the subsidiaries receive a valid invoice.

Charitable donations and charitable activity

The Company continues to support community initiatives and charitable causes, full details of which are given on page 26 of the OFR.

Political donations

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2008 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Going concern

The financial statements which appear on pages 47 to 86 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Annual General Meeting

The notice convening the Annual General Meeting to be held at 11.00am on Thursday, 31 January 2008 is contained in a circular sent to shareholders with this report. At the meeting, resolutions will be proposed to renew the authority to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares. Resolutions to make certain amendments to the Articles of Association are proposed to bring the Company's Articles of Association in line with age discrimination legislation and the Companies Act 2006. In particular, the Company is seeking the right to use electronic means as the default method of communicating with its shareholders, for example by using the website for delivery of the Annual report and accounts. Shareholders will be given the opportunity to elect to receive a hard copy, rather than receive it by default as at present. Full details of these resolutions are provided in the shareholder circular.

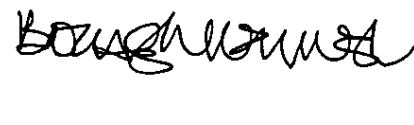
Auditors

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

The Directors who held office as at the date of approval of this Directors' report confirm that so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and that each Director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Bronagh Kennedy
Company Secretary
28 November 2007



Combined Code compliance

The Board recognises the importance of good corporate governance in creating a successful, sustainable and profitable business. It is committed to compliance with the principles of corporate governance as set out in the Combined Code on Corporate Governance (the 'Combined Code') and considers that the Company has complied throughout the year ended 29 September 2007 with all the provisions of the Combined Code, except where explained below.

The Board is responsible for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Combined Code, including clear operating procedures, lines of responsibility and delegated authority. These procedures have been in place since the Group was listed and are regularly reviewed by the Board.

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

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

In addition, the Audit Committee receives

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

Through the monitoring processes set out above, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 29 September 2007. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and the Board is not aware of any change to this status up to the approval of this Annual Report.

Although the Company is no longer required to comply with the requirements of the Sarbanes-Oxley Act to certify the effectiveness of its financial controls, the Directors remain fully committed to ensuring that the Group operates a good control environment.

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

Board and committee structure

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

The Board

The Board consists of the part-time Non-Executive Chairman, four Executive and four independent Non-Executive Directors.

There are nine Board meetings currently planned for 2008, and there were eight scheduled meetings during 2006/07. Sir Tim Lankester and Sara Weller were each unable to attend one meeting, otherwise there was full attendance. Seven additional Board meetings were held during the year. George Fairweather, Tony Hughes, Sir Tim Lankester and Sara Weller were each unable to attend one of these additional meetings. Where a Director was unable to attend a meeting, he or she was provided with all the papers and information relating to that meeting and was able to discuss issues arising with the Chairman and Chief Executive.

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

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

The Company Secretary's responsibilities include ensuring good information flows to the Board and its committees and between senior management and the Non-Executive Directors. The 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, as well as facilitating the induction of Directors. 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 appointment and removal of the Company Secretary is a matter reserved for the Board.

Directors

The following were Directors of the Company during the year

		Appointed
Roger Carr	Chairman	10 02 03
Tim Clarke	Chief Executive	10 02 03
Mike Bramley	Managing Director, Pubs & Bars	15 04 03
George Fairweather	Independent Non-Executive Director	15 04 03
Tony Hughes	Managing Director, Restaurants	15 04 03
Kann Naffah	Finance Director	15 04 03
Sara Weller	Independent Non-Executive Director	15 04 03
Sir Tim Lankester	Independent Non-Executive Director	16 05 03
Drummond Hall	Independent Non-Executive Director	30 07 04

Adam Fowle was appointed to the Board on 1 October 2007 and Tony Hughes will stand down from the Board on 31 December 2007

Directors' biographical details are set out on page 28 of the Annual review and summary financial statement 2007 and these include their main commitments outside the Company

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

Mike Bramley, Roger Carr and Drummond Hall will retire by rotation and offer themselves for reappointment at the 2008 AGM on 31 January. As Adam Fowle was appointed during the year, he will also stand for reappointment at the 2008 AGM

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

Details of the Executive Directors' service contracts are set out on page 40. The Chairman and the four independent Non-Executive Directors have letters of appointment

Chairman

Roger Carr is Chairman of the Board and has responsibility for the smooth running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He also ensures that appropriate communication is maintained with shareholders. Roger's external appointments include chairing a FTSE 100 company and he is deputy chairman of another. On 20 April 2007, the Company entered the FTSE 100. As a result, the requirement in the Combined Code that a chairman should not chair more than one FTSE 100 company is no longer met. The independent Non-Executive Directors led by the Senior Independent Director specifically considered the impact of this and his continued contribution as part of the Board effectiveness review referred to on page 32. This confirmed that he demonstrates through his energy, commitment, wealth of experience and dedication, that he is more than capable of devoting sufficient time to his role of Chairman of the Company alongside his other external appointments.

The Chairman separately met with the Non-Executives without the Executive Directors present as part of the Board Effectiveness Review.

Chief Executive

Tim Clarke is the Chief Executive and has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group. He has authority to approve capital expenditure projects up to a level authorised by the Board.

Senior Independent Director

Drummond Hall was appointed the Senior Independent Director on 23 February 2007. Sara Weller was Senior Independent Director until then. Drummond's responsibilities include being available to liaise with shareholders who have issues to raise. He is a member of the Remuneration Committee, the Nomination Committee and the Audit Committee.

Non-Executive Directors

The Company has experienced independent Non-Executive Directors who represent a strong source of advice and independent judgement. In addition to the Chairman, who was independent upon his appointment, there are four Non-Executive Directors, who the Board considers to be wholly independent. Other than their fees which are disclosed on page 39, the independent Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

All Directors are briefed by use of comprehensive papers circulated in advance of Board meetings and by presentations at the meetings in addition to receiving minutes of previous meetings. Their understanding of the Group's operations is enhanced by business presentations and operational visits to the Company's businesses. Separate strategy meetings and meetings with senior executives are attended.

Committees

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

Audit Committee

The Audit Committee, which is chaired by George Fairweather, consists of the four independent Non-Executive Directors. The Chairman of the Board, the Chief Executive and the Finance Director attend at the invitation of the Committee's Chairman. During 2006/07 the Committee met four times.

Further details about the Committee are included in the Audit Committee Report on page 33.

Remuneration Committee

During the year, the Remuneration Committee, which is chaired by Sara Weller, comprised the four independent Non-Executive Directors and the Chairman. Roger Carr was appointed to the Remuneration Committee on 1 October 2006, in line with revisions made to the Combined Code during the year, although the Remuneration Committee noted that these changes come into effect for financial years beginning on or after 1 November 2006. This Committee met six times during 2006/07.

Further details about the Remuneration Committee are included in the Remuneration Report on page 35.

Nomination Committee

This Committee consists of the Chairman of the Board, who chairs the Committee, the four independent Non-Executive Directors and the Chief Executive. The Company Secretary is Secretary to this Committee. The terms of reference for this Committee are consistent with the requirements of the Combined Code. The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning and reviewing the output of the Board effectiveness review. It met three times during the year to consider succession planning and to recommend the appointment of Adam Fowle to the Board. Although Sir Tim Lankester and George Fairweather were each unable to attend one meeting, they were nevertheless provided with all the papers and information relating to that meeting and were able to discuss issues arising with the Chairman of the Committee.

General Purposes Committee

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

Executive Committee

The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives as shown on page 29 of the Annual review and summary financial statement 2007.

The Executive Committee meets every four weeks and has everyday 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.

Board effectiveness evaluation

An internal evaluation of the Board's effectiveness was carried out shortly after the year end, which included a review of the performance of the Chairman and of the individual Directors. The evaluation considered the processes of the Board and its committees, and the range and balance of skills demonstrated by the Executive and Non-Executive Directors. It also reviewed the Directors' involvement in strategic, operational and financial matters, and their exposure to senior managers. Output from the Board effectiveness review is considered by the Nomination Committee to ensure that an appropriate balance of skills, knowledge and experience is represented on the Board and that the Board and its committees continue to work effectively.

Independent advice

Members of the Board may take independent professional advice in the furtherance of their duties and they have access to the advice and services of the Company Secretary.

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company has a regular programme of meetings with its major institutional shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Chairman, the Chief Executive and the Finance Director report to the Board the views of major shareholders about the Company, and the Senior Independent Director and other Non-Executive Directors are available to shareholders on request. Institutional investors and analysts are also invited to briefings by the Company after the announcement of its interim and preliminary results. The content of these briefings is posted on the Company's website, together with general information about the Company so as to be available to all shareholders. Presentations are also made to groups of individual shareholders.

The AGM provides a useful interface with private shareholders, many of whom are also customers. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated. The Chairmen of the Audit, Remuneration and Nomination Committees attend to answer questions.

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

Role of the Audit Committee

The Audit Committee's principal responsibilities are to

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

Audit Committee composition

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

Audit Committee frequency

The Committee meets at least four times a year. During 2006/07 four full meetings of the Committee were held. There was full attendance at all these meetings other than one at which Sara Weller and one at which Sir Tim Lankester were unable to attend. On those occasions all the papers and information relating to the meetings were provided and they were able to discuss issues arising with the Committee Chairman.

Audit Committee process

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

During the year, the Committee's meetings considered the following matters:

- Interim and full year financial results,
- The Company's proposed approach to Interim Management Statements,
- The scope and cost of the external audit,
- Non-audit work carried out by the external auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence,
- The scope of the annual internal audit plan, the Internal Audit department's terms of reference, its resourcing and external support,
- The external auditors' interim and full year reports,
- Periodic internal control and assurance reports from the Internal Audit function,
- The effectiveness of the external auditors and consideration of their reappointment,
- Periodic reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures,
- The effectiveness of the Internal Audit function,
- The resignation and steps taken to replace the Director of Group Assurance,
- Management representations granted to the external auditors and the Company's procedures to ensure all relevant audit information has been disclosed,
- Major changes in the Group's internal controls,

Audit Committee report

- The co-ordination of the internal and external audit functions,
- The Group's framework for the identification and control of major risks, its Risk and Assurance Register and the annual assessment of control effectiveness,
- Compliance with the code of ethics for the Executive Directors, the Executive Committee and all other senior officers,
- Corporate governance developments,
- Review of the steps taken by the Group to achieve SEC deregistration,
- Review of the suitability of the Group's accounting policies and practices,
- The status of litigation involving the Group, and
- The Committee's own terms of reference, membership and its effectiveness

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

Evaluations of the Committee in the year have been performed with the assistance of the Director of Group Assurance.

External auditors' independence

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

Approved by the Board

George Fairweather
Chairman of the Audit Committee
28 November 2007

This report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. It complies with the Companies Act 1985 and also with the Combined Code on Corporate Governance (the 'Combined Code') and with the UKLA Listing Rules. **Throughout this report, references to the year are to the 52 week period ended 29 September 2007.** This report will be put to shareholders for approval at the forthcoming Annual General Meeting to be held on 31 January 2008.

The Remuneration Committee

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

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

Sara Weller is Chairman of the Committee. She has experience of human resources matters and has the appropriate skills to chair the Committee. She does not chair any other committee of the Board. As noted last year, Roger Carr was appointed to the Committee from 1 October 2007.

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

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

The Committee received external advice during the year from remuneration consultants Deloitte & Touche LLP ('Deloitte') and Watson Wyatt, as well as from Allen & Overy, the Company's general legal advisers. The Committee took advice from Tim Clarke, the Chief Executive, Bronagh Kennedy, Human Resources Director and General Counsel,

and Sheila Mellish, Director of Compensation & Benefits. None of these participated in discussions concerning their own remuneration. Following a review of advisers, Deloitte was independently appointed by the Committee as its adviser from May 2007. Deloitte advises the Company on general tax matters and has previously advised on Non-Executive Directors' fees. It has not provided remuneration services to the Company since appointment as adviser to the Committee.

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

The Committee is responsible for determining policy on remuneration, including pension rights and, should it be necessary, compensation payments, for the Executive Directors, other members of the Executive Committee and certain senior executives and for reviewing the Chairman's fees. The Committee is committed to the principles of accountability and transparency to ensure that remuneration arrangements demonstrate a clear link between reward and performance. It determines the actual remuneration of the Executive Directors and reviews proposals in respect of other members of the Executive Committee, taking account of a range of factors, including percentage increases awarded across the Group as a whole. For the year under review, the total emoluments including benefits in kind earned by those members of the Executive Committee who were employed in the Group at the year end, and who were not main Board Directors, are shown in the table below.

No. of executives	£000
1	301-350
3	351-400
2	401-450
1	501-550

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

Remuneration policy for Executive Directors

The following overall policy has applied throughout the year and is intended to continue to apply for the financial year 2008.

- Remuneration packages are designed to attract, retain and motivate Executive Directors of the highest calibre,

- The packages will be competitive within the leisure retailing industry and in those markets from which the organisation recruits,
- In fixing remuneration, note will be taken of reward levels in the wider community and of the remuneration structure throughout the organisation,
- There will be an appropriate balance between fixed and variable risk reward. The latter will be linked to the performance of both the individual and of the Group, and
- Basic salary will normally be set within a competitive range broadly at median market level when compared with appropriate comparator companies, but, by exception, may extend into the upper quartile to attract new employees and reward key individuals for consistent outstanding performance.

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

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

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

As outlined in the OFR, total shareholder return ('TSR') is also an important measure of performance and this measure forms one of the performance conditions for the Performance Restricted Share Plan.

These KPIs and their alignment to remuneration policy are summarised overleaf and are discussed in more detail in the OFR on page 12.

Remuneration report

Summary of components of remuneration packages

Purpose	Grant policy	Performance measures 2006/07	2007/08
Annual performance bonus			
Motivates achievement of annual business KPIs and delivery of EPS target.	55% of salary 'on target' bonus, 100% of salary maximum bonus. Payable in cash or shares at the discretion of the Committee	Earnings per share (75%) and personal and group business objectives (25%) These objectives are based on a number of measures including like-for-like sales growth and return on investment	Earnings per share (75%) and personal and group business objectives (25%) These objectives are based on a number of measures including like-for-like sales growth and return on investment
Short Term Deferred Incentive Plan ('STDIP')			
Incentivises growth in EPS and share price Aligns interests of Executive Directors and shareholders	Deferred shares matched 1:1 subject to achievement of a performance condition. Dividend Accrued Shares will be awarded on the value of ordinary dividends accruing on vested shares	Growth in EPS over RPI over a three year performance period	Growth in EPS over RPI over a three year performance period
Performance Restricted Share Plan ('PRSP')			
Incentivises increase in cash returns generated by the business and reduction in overall cost of funding Aligns Interests of Executive Directors and shareholders	Up to 177% of base salary	Total shareholder return against an industry specific comparator group Average excess of cash return on cash capital employed over the weighted average cost of capital	Total shareholder return against an industry specific comparator group Average excess of cash return on cash capital employed over the weighted average cost of capital
Basic salary			
Reflects competitive market level for the role and individual contribution	Benchmarked against FTSE All Share Index and relevant sub-sector comparator group	Individual contribution	Individual contribution

These principles of alignment are cascaded as appropriate to executives below Board level

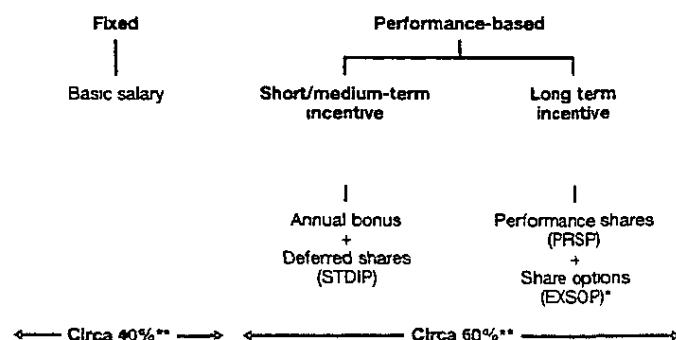
The main components of Executive Directors' remuneration have to date been as shown in the diagram alongside

Shares arising from share schemes should not normally be sold until the minimum level of ownership, as described on page 39, has been satisfied

The Committee monitors the size of potential remuneration awards to Directors and uses independent consultants to assist with modelling potential outcomes

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

Components of remuneration packages



*No further options under the EXSOP were granted following the 2006 AGM
**Using target or projected value calculations

Basic salary

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

The proportion of the Group's basic salary bill attributable to the Executive Directors and other members of the Executive Committee was 0.8% (2006 0.8%).

The average basic salary of the Executive Directors, on the basis that no short-term bonus was paid during the year, was £419,250 (2006 £710,250) and the average per non-Board employee was £13,686 (2006 £13,387), the ratio is therefore 1:31 (2006 1:53). The Board and the Remuneration Committee do not have a policy on this ratio, but aim to reward all employees fairly according to the nature of their role, their performance and market forces.

In the year under review, the average base salary increase for members of the Executive Committee, which includes the Executive Directors was 3.4%, whereas the average increase for other employees, including retail staff and management, was 2.3%.

Annual performance bonus and Short Term Deferred Incentive Plan

The purpose of the annual bonus and STDIP is to reward participants for performance over the previous financial year and provide an element of retention through a matching share award going forwards.

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

Challenging performance goals are set which must be achieved before a bonus becomes payable. For 2006/07, the maximum bonus opportunity has been 100% of salary of which, for the year to 29 September 2007, 75% was linked to earnings per share and 25% to personal and Group business objectives. At the discretion of the Committee, the bonus is payable either in cash or in shares under the STDIP as set out below.

During the year, certain hedging instruments ('hedges') were taken out in anticipation of implementing a property backed refinancing. These hedges have given rise to a non-cash deficit at the year end. As it is uncertain whether this non-cash deficit will crystallise and, if so, the extent to which it will affect the financial performance of the Company, the Executive Directors have voluntarily offered to freeze final consideration of whether a bonus should be paid in respect of the year to 29 September 2007 pending a review by the Remuneration Committee at the forthcoming half year or later, if appropriate.

Under the STDIP, any award of Bonus Shares is deferred for three years and, if the Executive Director is in the Company's employment at the end of that period, the Company will provide Matching Shares on a 1:1 basis. Under the rules of the STDIP, the Remuneration Committee has discretion to award Matching Shares, on a pro rata basis and subject to satisfaction of the performance condition, to good leavers, as defined by the plan rules.

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

As it has not yet been determined whether it is appropriate to make payment of the Executive Directors' bonuses in respect of the financial year 2006/07 as explained above, there may also be no award of Bonus or Matching Shares.

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

For the award in respect of the financial year 2004/05, the performance condition is based on growth in EPS such that cumulative EPS over the three year performance period must increase by at least 27% points over the growth in RPI before Matching Shares can vest in full. The vesting of Matching Shares will be on a sliding scale according to the level of EPS growth. No Matching Shares will be released unless EPS growth over the performance period exceeds RPI growth by at least 12% points.

For the award in respect of the financial year 2005/06, the performance measure is as described above except that the performance condition is based on average EPS growth in excess of RPI over the performance period.

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

Where an award is made, participants are entitled to receive Dividend Accrued Shares on vesting equal to the value of the gross ordinary dividends that would have been paid on the vested shares during the performance period.

Remuneration report

Performance Restricted Share Plan

The PRSP grants Executive Directors, at the discretion of the Committee, cash or nominal priced options over shares subject to the satisfaction of a performance condition set by the Committee which is measured over a three year period. Participants are entitled to receive Dividend Accrued Shares on vesting equal to the value of the gross ordinary dividends that would have been paid on the vested shares during the performance period.

Currently, three cycles are being operated in respect of the periods 2004/07, 2005/08 and 2006/09, each with two performance conditions, based on:

- Total shareholder return, and
- Cash return on cash capital employed exceeding the weighted average cost of capital, post tax

PRSP performance cycle to September 2009 – Summary of performance conditions

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

TSR was chosen as a measure because it aligns the interest of management with that of shareholders. The CROCCE versus WACC measure was chosen to incentivise the Executive Directors to increase the cash returns generated by the business and to reduce the overall cost of funding to the Company, thereby maximising the spread between the two and increasing shareholder value.

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

TSR measure

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

Company	Cycle to Sep 2007	Cycle to Sep 2008	Cycle to Sep 2009
Enterprise Inns	•	•	•
Fuller, Smith and Turner	•	•	•
Greene King	•	•	•
J D Wetherspoon	•	•	•
Luminar	•	•	•
Punch Taverns	•	•	•
Regent Inns	•	•	•
The Restaurant Group	•	•	•
Whitbread	•	•	•
Marston's*	•	•	•
Gondola Holdings**	•	•	•

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

For the three year cycle ending September 2007, the Company had to finish in first to fifth position for an award to vest, graded between 100% of the TSR element of the award for first position to 20% for fifth position. Below fifth position, the award relating to TSR lapses. The Company finished in second position so 80% of this element of the award will vest.

For the three year cycles ending September 2008 and September 2009, the Company has to finish in first to fifth position for an award to vest. Below fifth position, the award relating to TSR lapses.

CROCCE/WACC measure

The vesting of the other 50% of the award is based on the average amount by which the Company's CROCCE exceeds WACC over the performance period. The award for this element of the performance measure is graded so that, for the three year cycle ending September 2007, if the amount by which the CROCCE exceeds the WACC over the performance period is at least 5.0% points, 100% of the CROCCE element of the award will vest, whereas, if the excess is 3.5% points, 20% of the award will vest. In between 3.5% points and 5.0% points, the award will be graded on a straight line basis. Below 3.5% points, there will be no award in respect of this element. The excess of CROCCE over WACC for the cycle to September 2007 was 4.47% points, therefore 71.7% of this element of the award will vest.

For the three year cycles ending September 2008 and September 2009, the vesting of the other 50% is based on the excess of CROCCE over WACC as described above, except that, for the cycle to September 2009, if the amount by which the CROCCE exceeds the WACC over the performance period is at least 5.5% points, 100% of the CROCCE element of the award will vest, whereas, if the excess is 4.0% points, 20% will vest.

Executive Share Option Plan ('EXSOP')

Grants of EXSOP options were made annually up to June 2005. No further grant is intended to be made under this plan. Grants were made at the discretion of the Committee according to seniority, the maximum value in any one year being two times salary. A performance condition, set by the Committee, has to be met before the options may be exercised. For options granted in 2005, the performance measure is that cumulative adjusted EPS over the three year performance period, from 1 October 2004 to 30 September 2007, must increase by at least 27% points over the growth in RPI before the options can be exercised in full. As this performance condition has been achieved, 100% of the options will become exercisable three years after the date of grant. The performance measure under the EXSOP was reviewed and certified by the Company's auditors.

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

Rolled-over legacy options

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

Other share plans

Executive Directors may participate in the all-employee share plans, the Sharesave Plan and the Share Incentive Plan. Performance targets do not apply to such plans. No grant of options was made under the Sharesave Plan to any Director during the year.

Companies used for comparison in respect of overall pay and benefits

In assessing overall levels of pay and benefits, Mitchells & Butlers takes into account the packages offered by comparator companies. To improve the consistency and relevance of the data, the approach to benchmarking has, with advice from Deloitte, been reviewed this year. To ensure that the methodology remains relevant to the structure of the business and properly reflects the markets from which the organisation recruits, the overall levels of pay and benefits will be assessed by reference to market practice in both the FTSE All Share index, as well as relevant sector specific comparators.

The methodology and the comparator companies are chosen by the Committee following advice from independent external consultants having regard to

- industry sector to include direct competitors and the wider retail sector,
- size – financial size and the number of people employed, and
- the structure and complexity of the business

FTSE 100 and FTSE 250 comparators

From its listing on 15 April 2003 until 21 December 2003, the Company was a constituent of the FTSE 100 index. From 22 December 2003 until 20 April 2007, the Company was included in the FTSE 250 index. Since then, it has been included in the FTSE 100 index. The graph below therefore measures the Company's TSR performance, assuming dividends are reinvested, against both the FTSE 100 and 250 indices.

TSR has been calculated in accordance with the requirements of the Companies Act 1985, except that the period covered is only since the Company's listing in April 2003.

Directors' shareholdings

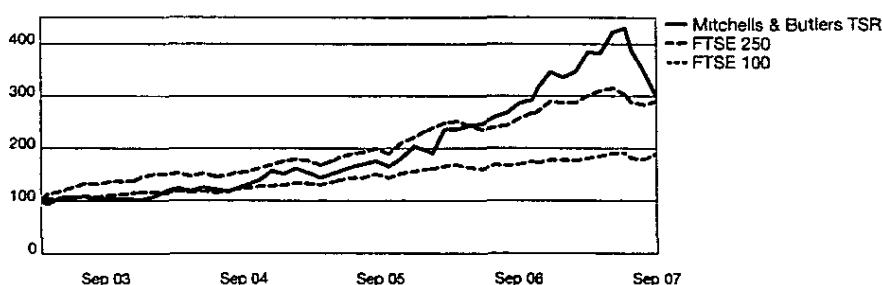
To support the Company's commitment to ensure that Directors' interests are aligned to those of shareholders, there is a mandatory shareholding of three times salary for the Chief Executive and twice salary for other Executive Directors. It is the policy of the Remuneration Committee that, for any future Executive Director appointment, the mandatory shareholding requirement may be reduced to one times salary subject to this continuing to be reflective of market practice at that time. Notwithstanding this policy, it has been decided that Adam Fowle will be required to attain a shareholding of twice his annual salary within five years of his appointment as an Executive Director, effective from 1 October 2007. Apart from this, Adam Fowle's remuneration package is consistent with the remuneration policy outlined on page 35 of this report.

Each of the incumbent Executive Directors had, at 29 September 2007, achieved the mandatory shareholding to ensure that their interests are aligned with those of shareholders as set out below.

Director	Shareholding as a multiple of salary*
Tim Clarke	9.1 x
Mike Bramley	6.8 x
Tony Hughes	7.5 x
Karim Naffah	5.2 x

*Based on the share price on 28 September 2007 of 611.0p

Mitchells & Butlers' TSR versus
FTSE 100 and FTSE 250 15 04 03 – 30 09 07



Non-Executive Directors

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

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

*Applicable to Remuneration and Audit Committees only

Remuneration report

Policy on Directors' contracts

It is the Company's normal policy to provide Executive Directors with rolling 12 month contracts, which provide for 12 months notice from the Company and six months notice from the Director. Service contracts provide for summary termination in the event of gross misconduct. In other circumstances, any severance payment would normally be based on a valuation of net pay and benefits for any unexpired notice period in the expectation that the Director has made reasonable attempts to mitigate his loss. There are no compensation provisions in relation to a change of control of the Company. Benefits normally include membership of a pension scheme, a healthcare scheme and the use of a company car. In 2006 the Remuneration Committee decided to introduce, for new appointees to the Board, contracts that provide for phased compensation payments on loss of office. This reflects developing best practice and has been applied in respect of Adam Fowle's appointment on 1 October 2007.

Director	Contract start date	Unexpired term*	Notice period
Tim Clarke	15 04 03	Indefinite	12 months
Mike Bramley	15 04 03	Indefinite	12 months
Tony Hughes	15 04 03	Indefinite	12 months
Karim Naffah	15 04 03	Indefinite	12 months

*To retirement age at 60. Tony Hughes will leave Mitchells & Butlers by reason of early retirement, aged 59, on 31 December 2007.

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

Non-Executive Directors do not have service contracts, but operate under a letter of appointment which provides for their tenure of office to be reviewed when they are about to stand for re-election, which is every three years. In any event, Non-Executive Directors may not currently serve after the AGM following their 67th birthday. There is no notice period and no provision for termination payments.

The dates of appointment of the Non-Executive Directors are set out on page 31.

Pension arrangements

UK-based Executive Directors and senior employees participate with other members in the Mitchells & Butlers Executive Pension Plan (the 'Plan') and, if appropriate, the Mitchells & Butlers Executive Top-Up Scheme ('MABETUS'). Executives in Germany who do not participate in these plans are entitled to participate in relevant local plans. The Remuneration Committee has considered the implications of the pensions regulations contained within the Finance Act 2004 effective from April 2006. The MABETUS will remain in place and will be used to provide benefits for members of the defined benefit plan who were above the earnings cap (the 'Cap') on 5 April 2006 and for members whose pension benefit is above the Lifetime Allowance, which limits the amount of benefits that receive preferential tax treatment under a pension arrangement which has 'registered' status with HM Revenue & Customs. MABETUS is an unfunded, unregistered arrangement, however, appropriate security is provided through a charge on property assets. This decision does not alter the cost to the Company of providing pension benefits. No extra payment has been or is planned to be made to any individual as a result of the new legislation.

The Plan is a funded occupational pension scheme which has 'registered' status with HM Revenue & Customs and therefore is subject to preferential tax treatment compared to unregistered schemes such as MABETUS. The Plan has a final salary section under which the Executive Directors can accrue benefits. Benefits up to the Cap are provided by the Plan and MABETUS is used to provide benefits in excess of the Cap. Mike Bramley has entitlement to benefits in excess of his Lifetime Allowance, which are also provided by MABETUS.

The Plan's main features applicable to the Executive Directors are:

- a normal pension age of 60,
- pension accrual of up to 1/30th of final pensionable salary for each year of pensionable service,
- life assurance cover of four times pensionable salary
- pensions payable in the event of ill health, and
- on death, pensions based on one-third full pension entitlement for a spouse and one-sixth for each of a maximum of two eligible children.

On the death of a Director before his normal pension age, a spouse's pension equal to one-third of the Director's pension is payable, a child's pension of one-sixth of the Director's pension is payable for each of a maximum of two eligible children.

Early retirement

A member who decides to leave the service of the Company currently has the right to draw his accrued pension at any time after his 50th birthday, subject to a discount for early payment.

Pension increases

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

Other discretionary benefits

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

External listed company appointments

The Company recognises that its Executive Directors may be invited to become non-executive directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one such non-executive appointment with the Company's prior approval and as long as this is not likely to lead to conflicts of interest. Fees received may be retained by the Director. Tim Clarke is a non-executive director of Associated British Foods plc, and received £45,875 (2006 £44,000) during the year for that appointment.

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

Remuneration report Supplementary information on Directors' remuneration

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Directors' emoluments

	Basic salaries and fees £000	Annual performance bonus* £000	Benefits £000	Total emoluments (excluding pensions)	
				2007 52 weeks £000	2006 52 weeks £000
Executive Directors					
Tim Clarke	538	—	22	560	951
Mike Bramley	374	—	21	395	643
Tony Hughes	374	—	25	399	645
Karim Naffah	386	—	13	399	677
Non-Executive Directors					
Roger Carr	224	—	—	224	209
George Fairweather	55	—	—	55	51
Drummond Hall**	47	—	—	47	44
Sir Tim Lankester	47	—	—	47	44
Sara Weller	55	—	—	55	51
Total 2007	2,100	—	81	2,181	
Total 2006	2,015	1,222	78		3,315

*Final consideration of whether a bonus should be payable in respect of the year to 29 September 2007 has been frozen pending a review by the Committee

**Drummond Hall's fees were paid to his former employer, Dairy Crest Group plc, until his retirement from that company on 31 December 2006

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

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

Annual performance bonus

Subject to final consideration by the Committee as set out above, the bonus which would have been earned but has been frozen in respect of each Executive Director for 2006/07 is as follows:

Director	Maximum bonus achievable £000	Bonus earned £000	EPS target achieved £000	Group and personal objectives £000
Tim Clarke	543	462	362	100
Mike Bramley	380	323	253	70
Tony Hughes	380	276	253	23
Karim Naffah	390	332	260	72

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

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

Group business objectives related to:

- improvement in like-for-like sales,
- staff productivity,
- guest satisfaction,
- effective purchasing,
- return on investment,
- asset management, and
- return on the Acquired Sites

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

Remuneration report Supplementary information on Directors' remuneration

Salary

The normal salary review date is 1 January. As at 29 September 2007 and 28 November 2007, the basic annual salaries of Executive Directors were as shown below:

Director	29 09 07 and 28 11 07 £000
Tim Clarke	543
Mike Bramley	380
Adam Fowle (from 01 10 07)	350*
Tony Hughes	380
Karim Naffah	390

*Next review is scheduled to be effective from 1 January 2009

Short Term Deferred Incentive Plan

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

Director	Carried forward as at 30 09 06				Awarded in FY 2007			Total number of Matching Shares vested in year	Total number of Matching Shares yet to vest at 29 09 07	Share price at 29 09 07	Total value at 29 09 07
	Number of Matching Shares	Share price at year end	Value of Matching Shares £000	Earliest vesting date	Number of Matching Shares awarded	Share price on award date 05 12 06	Value of Matching Shares awarded £000				
Tim Clarke	86,758	589 5p	511	07 12 07	44,187	721 5p	319	28,852	102,093	611 0p	624
Mike Bramley	73,422	589 5p	433	07 12 07	19,455	721 5p	140	16,269	76,608	611 0p	468
Tony Hughes	83,084	589 5p	490	07 12 07	38,910	721 5p	281	18,891	103,103	611 0p	630
Karim Naffah	61,404	589 5p	362	07 12 07	21,121	721 5p	152	20,314	62,211	611 0p	380

From FY 2006, all awards of Matching Shares have a performance condition. These are described on page 37. The earliest vesting date for the awards made in FY 2006 (ie in December 2005) is December 2008 and the earliest vesting date for the awards made in FY 2007 (ie in December 2006) is December 2009.

The table below shows details of the Matching Shares that vested during the year. The number of shares vested were released subject to tax and NI.

Director	Number of Matching Shares	Award date	Share price on award date	Vesting date	Share price on vesting date	Market value on vesting date £000	Net shares received after tax and NI
Tim Clarke	8,894	09 12 03	235 75p	11 12 06	719 25p	64	5,240
	10,958	07 12 04	322 25p	07 12 06	720 00p	144	11,758
Mike Bramley	5,781	09 12 03	235 75p	11 12 06	719 25p	42	3,406
	10,488	07 12 04	322 25p	07 12 06	720 00p	76	6,179
Tony Hughes	5,781	09 12 03	235 75p	11 12 06	719 25p	42	3,406
	13,110	07 12 04	322 25p	07 12 06	720 00p	94	7,724
Karim Naffah	6,226	09 12 03	235 75p	11 12 06	719 25p	45	3,668
	14,088	07 12 04	322 25p	07 12 06	720 00p	101	8,300

The potential total gross gain made in the year by all Directors had they sold all their shares when they vested was £606,947 (2006 £332,291).

Performance Restricted Share Plan

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

In 2007, there were three cycles of the plan in operation, each with a three year performance period, as outlined below:

- October 2004 to September 2007
The combined maximum award from the two measures is equivalent to 90% of basic salary at the date of the award,
- October 2005 to September 2008
The combined maximum award is, as approved by shareholders at the 2006 AGM, equivalent to 177% of basic salary at the date of the award. This change was applied in conjunction with the discontinuance of the EXSOP, and
- October 2006 to September 2009
The combined maximum award is also equivalent to 177% of basic salary at the date of the award.

Details of the two performance measures are set out on page 38.

The maximum number of shares available, subject to tax and NI, if all performance targets are achieved is

Director	Maximum potential shares as at 30 09 06	Lapsed in year shares	Vested in year shares	Exercised in year shares	Share price on date of exercise	Granted in year shares*	Maximum potential shares as at 29 09 07	Maximum potential award as at 29 09 07 £000**	Earliest vesting date	Latest lapse date
Tim Clarke	586,978	61,337	143,117	143,117	684 61p	140,014	522,538	3,193	30 11 07	30 11 11
Mike Bramley	393,220	40,290	94,008	94,008	684 61p	95,104	354,026	2,163	30 11 07	30 11 11
Tony Hughes	393,220	40,290	94,008	94,008	684 61p	95,104	354,026	2,163	30 11 07	30 11 11
Karim Naffah	417,784	43,296	101,024	101,024	684 61p	100,388	373,852	2,284	30 11 07	30 11 11

*Granted on 1 December 2006, share price at date of grant was 685 0p

**Based on the share price on 28 September 2007 of 611 0p

The potential total gross gain made in the year by all Directors had they sold all their shares when they vested was £2,958,586 (2006 £1,022,297)

Directors' share options

Director	Ordinary shares under option					Weighted average option price (p)	Price of option exercised (p)	Market share price on date of exercise (p)	Earliest exercise date	Last expiry date
	30 09 06	Granted	Vested*	Exercised	29 09 07					
Tim Clarke										
A	949,037	–	403,960	(456,620)	896,377	264 31	219 00	694 42	–	24 05 14
B	732,303	–	(403,960)	–	328,343	321 59	–	–	24 05 08	24 05 15
Total	1,681,340	–	–	(456,620)	1,224,720	279 67				
Mike Bramley										
A	605,777	–	265,346	(296,800)	265,346	252 50	219 00	694 42	–	24 05 14
	–	–	–	(58,842)*	–	–	286 68	694 42	–	–
	–	–	–	(10,469)*	–	–	286 68	694 42	–	–
	–	–	–	(101,044)*	–	–	259 73	694 42	–	–
	–	–	–	(131,942)*	–	–	266 74	694 42	–	–
	–	–	–	(1,948)*	–	–	305 90	694 42	–	–
	–	–	–	(4,732)*	–	–	364 46	694 42	–	–
B	480,004	–	(265,346)	–	214,658	326 10	–	–	24 05 08	24 05 15
Total	1,085,781	–	–	(605,777)	480,004	285 41				
Tony Hughes										
A	683,996	–	270,819	(296,800)	265,346	252 50	219 00	694 42	–	24 05 14
	–	–	–	(120,251)*	–	–	259 73	735 10	–	–
	–	–	–	(154,489)*	–	–	266 74	735 10	–	–
	–	–	–	(34,516)*	–	–	286 68	735 10	–	–
	–	–	–	(34,795)*	–	–	305 90	735 10	–	–
	–	–	–	(43,145)*	–	–	364 46	735 10	–	–
	–	–	–	(5,473)	–	–	169 00	588 50	–	–
B	485,477	–	(270,819)	–	214,658	326 10	–	–	24 05 08	24 05 15
Total	1,169,473	–	–	(689,469)	480,004	285 41				
Karim Naffah										
A	510,862	–	285,148	(23,382)*	763,443	239 98	286 68	694 42	–	24 05 14
B	516,581	–	(285,148)	(9,185)*	231,433	323 82	364 46	694 42	24 05 08	24 05 15
Total	1,027,443			(32,567)	994,876	259 48				

*During the year ended 29 September 2007 options granted in May 2004 under the EXSOP vested for each of the Executive Directors. The number of shares under option that vested during the year have moved from row B to row A

*Indicates the exercise of rolled-over legacy share options

Shares under option at 29 September 2007 are designated as

A Where the options are exercisable and the market price per share was above the option price at 28 September 2007, and

B Where the options are not yet exercisable and the market price was above the option price on 28 September 2007

The potential total gross gain made in the year by all Directors had they sold all their shares when they exercised the above share options would have been £8,210,099 (2006 £845,633)

The above table excludes potential awards under the PRSP

Remuneration report

Supplementary information

on Directors' remuneration

Executive share options

Options granted under the EXSOP are exercisable between 27 May 2006 and 23 May 2015

Rolled-over legacy options

Rolled-over legacy options became exercisable on demerger from Six Continents in April 2003 and, if not exercised, will lapse on various dates up to 2012. Rolled-over legacy options ceased to be subject to performance conditions on demerger.

Sharesave options

Sharesave options are exercisable between 1 October 2007 and 31 March 2009

No Directors' options over Mitchells & Butlers plc shares under the EXSOP or Sharesave Plan lapsed during the year

Share Incentive Plan

As at 29 September 2007, the Executive Directors had the following entitlements subject to the rules of the all-employee Share Incentive Plan. Awards made before the share consolidation on 18 October 2006 have been adjusted to reflect that consolidation.

	Awarded 27 06 03 @ 238 5p	Normal vesting date*	Awarded 28 06 04 @ 271 75p	Normal vesting date**	Awarded 30 06 05 @ 330 0p	Normal vesting date	Awarded 05 07 06 @ 519 75p	Normal vesting date	Awarded 29 06 07 @ 876 0p***	Normal vesting date
Tim Clarke	754	27 06 06	915	28 06 07	754	30 06 08	478	05 07 09	342	29 06 10
Mike Bramley	574	27 06 06	866	28 06 07	723	30 06 08	462	05 07 09	278	29 06 10
Tony Hughes	627	27 06 06	866	28 06 07	723	30 06 08	462	05 07 09	278	29 06 10
Karim Naffah	691	27 06 06	915	28 06 07	754	30 06 08	478	05 07 09	292	29 06 10

*The share price on 27 June 2006, the date of vesting, was 505 0p

**The share price on 28 June 2007, the date of vesting, was 876 0p

***The share price on 29 June 2007, the date of award, was 879 5p

Directors' shareholdings

	Ordinary shares of 8 1/4p	
	29 09 07	30 09 06*
Executive Directors		
Tim Clarke	806,409	487,022
Mike Bramley	422,666	104,222
Tony Hughes	468,381	110,932
Karim Naffah	333,131	224,827
Non-Executive Directors		
Roger Carr	27,470	17,470
George Fairweather	1,658	1,658
Drummond Hall	7,974	2,902
Sir Tim Lankester	1,017	1,017
Sara Weller	4,383	4,354

*Adjusted for the share consolidation implemented on 18 October 2006

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

In the period from 29 September 2007 to 28 November 2007, there were no changes in the Directors' interests.

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

The market price per share on 28 September 2007 was 611 0p and the range during the year to 28 September 2007 was 582 0p to 898 0p per share.

Directors' pension benefits

Director	Years of pensionable service	Age at 29 09 07	Directors' contribution £*	Transfer value of accrued pension		Increase in transfer value over year less Directors' contributions £	Increase in accrued pension ** £ p a	Increase in accrued pension *** £ p a	Accrued pension at 29 09 07 **** £ p a
				30 09 06 £	29 09 07 £				
Tim Clarke	17	50	29,500	3,459,200	3,689,000	200,300	19,600	10,700	295,800
Mike Bramley	27	56	–	3,754,500	4,220,000	465,500	23,800	16,400	256,300
Tony Hughes†	12	59	9,000	2,301,000	2,861,200	551,200	18,400	14,400	140,800
Karim Naffah	16	44	21,200	1,522,000	1,663,400	120,200	17,000	12,000	173,700

*Contributions paid in the year by the Directors under the terms of the plans

**The absolute increase in accrued pension during the year

***The increase in accrued pension during the year, excluding any increase for inflation

****Accrued pension is that which would be paid annually on retirement at 60, based on service to 29 September 2007

†The value of accrued benefits and the increase in transfer value for the year to 29 September 2007 reflects in part the decision taken at the discretion of the Committee after careful consideration and with the consent of the Plan Trustees to allow Tony Hughes to draw his accrued pension without deduction on his early retirement, aged 59, from 31 December 2007. No specific additional contribution is or has been made by the Company in respect of this early retirement.

Tim Clarke and Karim Naffah are members of the final salary section of the Plan

Mike Bramley opted out of the Plan for future accrual with effect from 5 April 2006 and Tony Hughes opted out of the Plan for future accrual from 31 March 2007. Death benefits up to the Lifetime Allowance will be provided by the Plan. All other future benefits will be provided by MABETUS.

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

Transfer values have been calculated in a manner consistent with the Retirement Benefits Schemes – Transfer Values (GN11) published by the Institute of Actuaries and the Faculty of Actuaries.

Approved by the Board

Sara Weller

Chairman of the Remuneration Committee

28 November 2007

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

We have audited the Group financial statements of Mitchells & Butlers plc for the year ended 29 September 2007 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the year ended 29 September 2007 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ('IFRS') as adopted by the European Union are set out in the Statement of directors' responsibilities.

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

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

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 29 September 2007 and of its loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the Group financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditors
London
28 November 2007

Group income statement
For the 52 weeks ended
29 September 2007

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	Notes	2007 52 weeks			2006 52 weeks		
		Before exceptional items £m	Exceptional items* £m	Total £m	Before exceptional items £m	Exceptional items* £m	Total £m
Revenue	1, 3	1,894	–	1,894	1,720	–	1,720
Operating costs before depreciation and amortisation	4, 9	(1,422)	(11)	(1,433)	(1,290)	(7)	(1,297)
(Loss)/profit arising on property-related items	9	–	(23)	(23)	–	23	23
EBITDA**		472	(34)	438	430	16	446
Depreciation and amortisation	14, 15	(129)	–	(129)	(121)	–	(121)
Operating profit	3	343	(34)	309	309	16	325
Finance costs	9, 10	(153)	(221)	(374)	(118)	(4)	(122)
Finance revenue	10	6	–	6	9	–	9
Net finance income from pensions	10	11	–	11	8	–	8
Profit/(loss) before tax		207	(255)	(48)	208	12	220
Tax (expense)/credit	9, 11	(62)	100	38	(64)	39	(25)
Profit/(loss) for the financial period attributable to equity holders of the parent		145	(155)	(10)	144	51	195
Earnings/(loss) per ordinary share							
Basic	13	35 5p		(2 5)p	29 3p		39 7p
Diluted	13	34 4p		(2 5)p	28 6p		38 8p
Dividends							
Ordinary dividends							
Proposed or paid (pence)	12			14 25			12 25
Proposed or paid (£m)	12			57			53
Special dividends							
Paid (pence)	12			100 00			–
Paid (£m)	12			486			–

*Exceptional items are explained in note 1 and analysed in note 9

**Earnings before interest, tax, depreciation and amortisation

All activities relate to continuing operations

The notes on pages 51 to 86 form an integral part of these financial statements

**Group statement of recognised
income and expense
For the 52 weeks ended
29 September 2007**

	Notes	2007 52 weeks £m	2006 52 weeks restated* £m
Unrealised gain on revaluation of the property portfolio	2	1,124	—
Tax charge relating to movement in unrealised gain due to revaluation	2, 11	(317)	—
Tax credit relating to indexation of gains in respect of previous revaluations	11	25	19
Gains/(losses) on cash flow hedges taken to equity	21	55	(22)
Actuarial gains on defined benefit pension schemes	8	33	27
Tax on items recognised directly in equity	11	(23)	11
Tax credit in respect of change in tax rate	11	30	—
Income recognised directly in equity		927	35
Transfers to the income statement			
On cash flow hedges	21	15	16
Tax on items transferred from equity	11	(5)	(5)
Net income recognised directly in equity		937	46
(Loss)/profit for the financial period		(10)	195
Total recognised income and expense for the financial period attributable to equity holders of the parent		927	241
Effect of prior year adjustment	2		(76)

*Restated in respect of a prior year adjustment (see note 2 to the financial statements)

The notes on pages 51 to 86 form an integral part of these financial statements

Group balance sheet
29 September 2007

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	Notes	2007 £m	2006 restated* £m
Assets			
Goodwill and other intangible assets	14	17	22
Property, plant and equipment	15	5,030	3,867
Lease premiums		11	13
Deferred tax asset	22	75	68
Derivative financial instruments	21	30	–
Total non-current assets		5,163	3,970
Inventories	16	38	42
Trade and other receivables	17	69	81
Derivative financial instruments	21	79	–
Cash and cash equivalents	28	117	375
Total current assets		303	498
Non-current assets held for sale	18	6	88
Total assets		5,472	4,556
Liabilities			
Borrowings	20	(234)	(41)
Derivative financial instruments	21	(295)	(7)
Trade and other payables	19	(243)	(251)
Current tax liabilities		(18)	(22)
Total current liabilities		(790)	(321)
Borrowings	20	(2,317)	(2,375)
Derivative financial instruments	21	(47)	(55)
Pension liabilities	8	(18)	(99)
Deferred tax liabilities	22	(723)	(494)
Provisions	23	(1)	(3)
Total non-current liabilities		(3,106)	(3,026)
Total liabilities		(3,896)	(3,347)
Net assets attributable to equity holders of the parent		1,576	1,209
Equity			
Called up share capital	24, 26	34	34
Share premium account	26	14	14
Capital redemption reserve	26	3	3
Revaluation reserve	26	828	–
Own shares held	26	(13)	(12)
Hedging reserve	26	20	(30)
Translation reserve	26	7	6
Retained earnings	26	683	1,194
Total equity		1,576	1,209

*Restated in respect of a prior year adjustment (see note 2 to the financial statements)

The notes on pages 51 to 86 form an integral part of these financial statements

Signed on behalf of the Board

Tim Clarke

Karim Naffah

28 November 2007

T Clarke
K. Naffah

Group cash flow statement
For the 52 weeks ended
29 September 2007

	Notes	2007 52 weeks £m	2006 52 weeks £m
Cash flow from operations	27	447	430
Interest paid		(151)	(115)
Interest received		6	8
Tax paid		(33)	(48)
Net cash from operating activities		269	275
Investing activities			
Purchases of property, plant and equipment		(252)	(179)
Acquisition of Whitbread pub restaurant sites		(8)	(489)
Purchases of intangibles (computer software)		(1)	(3)
Proceeds from sale of property, plant and equipment		162	88
Proceeds from cash deposits with a maturity of greater than three months		-	1
Defence costs	9	-	(4)
Corporate restructuring costs		(4)	-
Net cash used in investing activities		(103)	(586)
Financing activities			
Purchase of own shares		(46)	(76)
Proceeds on release of own shares held		11	12
Repayment of principal in respect of securitised debt	20	(39)	(460)
Proceeds from issue of securitised debt		-	1,078
Proceeds from issue of other debt		192	-
Expenditure associated with refinancing		(4)	(10)
Repayment of principal in respect of other loans		-	(1)
Dividends paid	12	(538)	(56)
Net cash used in financing activities		(424)	487
Net (decrease)/increase in cash and cash equivalents	29	(258)	176
Cash and cash equivalents at the beginning of the financial period		375	199
Cash and cash equivalents at the end of the financial period		117	375

Cash and cash equivalents are defined in note 1

The notes on pages 51 to 86 form an integral part of these financial statements

1 General information

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

The Group has adopted a policy of revaluing its freehold and long leasehold land and buildings as at 29 September 2007 and these are now stated at fair value. Short leasehold properties, fixtures and fittings are held at deemed cost and non-current assets held for sale as at 29 September 2007 are held at the lower of deemed cost or expected net realisable value upon their disposal

The change in accounting policy reflects the adoption by the Group of emerging best practice among UK listed companies. In addition, the Group has been pursuing a property based refinancing during the year, seeking to realise for shareholders the potential value of the Group's property portfolio. The revaluation of freehold and long leasehold land and buildings within the Group's balance sheet provides shareholders with a more representative value than the historic cost basis

Certain items of property, plant and equipment as at 30 September 2006 are held at deemed cost under the transitional rules of IFRS

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

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

The Group's accounting reference date is 30 September. The Group draws up its financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 223 (3) of the Companies Act 1985

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets and liabilities, income and expense. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, include depreciation and amortisation, asset impairments and pensions. Actual results may differ from estimates

Basis of consolidation

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

Intangible assets

1 Goodwill

Goodwill arising in respect of acquisitions, being the excess of the purchase consideration over the fair value attributed to the separately identifiable assets, liabilities and contingent liabilities acquired, is stated at cost less any impairment in value. Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

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

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

11 Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight line basis over their useful life. The period of amortisation ranges between three and ten years with the majority being five years

Property, plant and equipment

Within property plant and equipment, freehold and long leasehold land and buildings have been revalued as at 29 September 2007 to fair value. Short leasehold properties, fixtures and fittings are held at historic cost and non-current assets held for sale as at 29 September 2007 have not been revalued. Surpluses which arise from the revaluation exercise are recorded directly within the revaluation reserve unless they are reversing a revaluation decrease which has been recognised in the income statement previously, in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in income. Where the revaluation exercise gives rise to a deficit, this is reflected directly in the revaluation reserve to the extent that a surplus exists against the same asset. Any residual amount is then recognised against income

Property, plant and equipment as at 30 September 2006 is stated at historic cost or deemed cost less accumulated depreciation and any impairment in value. Properties and land that had been revalued prior to 26 September 2004, the date of transition to IFRS, are stated as at 30 September 2006 on the basis of deemed cost, being the revalued amount at the date of that revaluation. The use of the 'deemed cost' exemption on transition to IFRS means that there were no revaluation surpluses in respect of property, plant and equipment at that date. Consequently, the revaluation surplus reflected in the revaluation reserve represents the increase in valuation above the previous carrying amount, and any downward valuations are recognised in the income statement

Notes to the financial statements continued

1. General information continued

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

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

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

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

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

The carrying values of property, plant and equipment are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an outlet exceeds its recoverable amount. The recoverable amount is the higher of an outlet's fair value less costs to sell and value in use.

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

Non-current assets held for sale and disposal groups

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

Leases

i Operating leases

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

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

ii Finance leases

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

Inventories

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

Financial instruments

i Trade and other receivables

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

ii Cash and cash equivalents

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

iii Trade and other payables

Trade and other payables are recognised at original cost.

iv Borrowings

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

v Derivative financial instruments and hedge accounting

The Group uses interest rate, inflation and currency swap contracts to hedge its exposure to changes in interest rates, the retail price index and exchange rates. It also uses gilt hedges to hedge its exposure to movements in the fair value of its fixed rate debt. These contracts are designated as cash flow hedges and hedge accounting is applied where appropriate. Derivative financial instruments are not used for trading or speculative purposes.

1 General information continued

Interest rate, inflation, currency swap and gilt hedges are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Fair value is calculated as the present value of the estimated future cash flows.

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

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

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

v1 Equity instruments

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

Foreign currencies

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

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

Revenue

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

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

Tax

The income tax expense represents both the income tax payable, based on profits for the year, and deferred tax and is calculated using tax rates enacted or substantively enacted at the balance sheet date. Income tax is recognised in the income statement except when it relates to items charged or credited directly to equity, in which case the income tax is also charged or credited to equity.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount of their tax bases. No deferred tax is recognised if the temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred tax is not recognised in respect of temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Employee benefits

1 Pension obligations

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

The liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. The current service cost, together with the cost of any benefits relating to past service, is charged to operating profit. The interest cost and the expected return on assets are shown as a net amount within finance income or finance expense. Actuarial gains and losses are recognised in full in the period in which they occur, in the statement of recognised income and expense, rather than the income statement.

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

Notes to the financial statements continued

1. General information continued

ii Share-based compensation

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

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

Own shares

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

Provisions

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

Dividends

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

Exceptional items

Exceptional items are those which are separately identified by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. Exceptional items and the related tax on these are excluded from the calculation of earnings per share before exceptional items.

Recent accounting developments

During the year, the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group. The Directors do not anticipate that the adoption of the new standards or revisions to existing standards will have a material impact on the Group's financial statements in the period of initial adoption and expect that there will be no material impact on reported income or net assets. The impact of IFRIC 14 will depend on the balance sheet position of the pension plans in the year of adoption and in particular whether a pension plan surplus or deficit is recorded under IAS 19.

IFRS 7 'Financial Instruments: Disclosures' and 'Amendment to IAS 1 – Capital disclosures' will require disclosure of additional information relating to the Group's financial instruments. IFRS 7 is first effective for periods beginning on or after 1 January 2007.

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

Revised IAS 23 'Borrowing Costs' which is first effective for periods beginning on or after 1 January 2009, requires costs which are directly attributable to assets that take a substantial period of time before they are ready for use or sale, to be capitalised.

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

Exchange rates

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the financial period of £1 = €1.48 (2006 £1 = €1.46), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.43 (2006 £1 = €1.47) and £1 = \$2.04 (2006 £1 = \$1.87) respectively.

2. Change of accounting policy and prior year adjustment

As at 29 September 2007 the Group has adopted a policy of revaluing its freehold and long leasehold property portfolio to market value, in accordance with the fair value provisions of IAS 16 'Property, plant and equipment'. This is a change from the previous policy, under which property, plant and equipment was stated at historic cost, except for certain items of property, plant and equipment held at deemed cost under the transitional rules of IFRS. As stated in note 1 above, the change in accounting policy reflects the adoption by the Group of emerging best practice among UK listed companies. In addition, the Group has been pursuing a property based refinancing during the year, seeking to realise for shareholders the potential value of the Group's property portfolio. The revaluation of property, plant and equipment within the Group's balance sheet provides shareholders with a more representative value than the historic cost basis.

The impact on the financial statements of this change in accounting policy has been to

- increase the net book value of land and buildings as at 29 September 2007 by £1,124m,
- recognise an exceptional charge against operating profit in respect of 'Impairment arising from revaluation of the property portfolio' of £45m. This impairment reflects the difference for all assets where the fair value of the asset as determined by the revaluation as at 29 September 2007 is below the net book value prior to the revaluation,
- the impact of the above is a net increase in the value of property, plant and equipment of £1,079m (see note 15). This has been booked as an increase on cost or valuation of £1,042m and a write back of accumulated depreciation of £37m,
- increase the amount of the deferred taxation provision by £296m after taking account of the change in the rate of corporation tax in 2008,
- recognise an exceptional deferred tax credit of £13m in respect of 'Impairment arising from revaluation of the property portfolio', and
- recognise a credit of £828m against the revaluation reserve, representing the revaluation adjustment of £1,124m, plus the related deferred taxation liability of £296m.

As a result of the work performed to enable a policy of revaluation to be adopted, the Group has obtained more detailed information in respect of the valuation and tax base cost for individual assets. This information has enabled the Group to adjust its brought forward deferred taxation provision as at 1 October 2005 to a more appropriate amount. The Group has increased its deferred taxation provision as at 1 October 2005 by £99m, with a corresponding entry recognised in retained earnings at the same date. It has increased the tax credit relating to the indexation of gains in respect of previous revaluations in its statement of recognised income and expense in 2006 by £23m. As a result of this prior year adjustment, the deferred taxation provision reported in 2006 has increased by £76m and the amount of retained earnings reported in 2006 has reduced by £76m.

Notes to the financial statements continued

3. Segmental analysis

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

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

	2006 52 weeks					Total £m
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	
Revenue						
Sales to third parties	958	762	1,720	–	–	1,720
Operating profit						
Operating profit before exceptional items	179	130	309	–	–	309
Exceptional items	23	–	23	–	(7)	16
Operating profit after exceptional items	202	130	332	–	(7)	325
Net finance costs						(105)
Tax expense						(25)
Profit for the financial period						195

3. Segmental analysis continued

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

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

	2006 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated restated* £m	Total restated* £m
Net assets						
Assets	2,179	1,914	4,093	19	–	4,112
Liabilities	(139)	(106)	(245)	(1)	–	(246)
Segmental net assets	2,040	1,808	3,848	18	–	3,866
Net debt					(2,067)	(2,067)
Other unallocated liabilities**					(590)	(590)
					(2,657)	1,209
Other						
Capital expenditure	92	595	687	–	–	687
Depreciation and amortisation	69	52	121	–	–	121

*Restated in respect of a prior year adjustment (see note 2)

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

Geographic segments

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

	UK		Germany		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Revenue – sales to third parties	1,859	1,685	35	35	1,894	1,720
Segment assets	5,131	4,069	39	43	5,170	4,112
Capital expenditure	257	686	3	1	260	687

Notes to the financial statements continued

4. Operating costs

	2007 52 weeks £m	2006 52 weeks £m
Raw materials and consumables	511	461
Changes in inventory of finished goods and work in progress	4	(3)
Staff costs (note 6)	506	455
Hire of plant and machinery	34	34
Operating lease rentals		
– minimum lease payments	46	45
– contingent rents	2	2
Other costs	330	303
	1,433	1,297
Depreciation of property, plant and equipment	122	114
Amortisation of intangible assets	6	7
Depreciation of lease premiums	1	–
Depreciation and amortisation	129	121
	1,562	1,418

5 Auditors' remuneration

	2007 52 weeks £m	2006 52 weeks £m
Audit of the financial statements	0.1	0.1
Audit of the Company's subsidiaries	0.3	0.3
	0.4	0.4
Other fees to auditors		
– US Sarbanes Oxley services	–	0.1
– taxation and other services	0.1	0.1
– corporate finance services	0.5	0.4
	0.6	0.6

The auditors' fee for the audit of the parent company was £21,000 (2006 £20,000)

Substantially all of the auditors' remuneration was paid in the UK

6. Employees and Directors

	2007 52 weeks £m	2006 52 weeks £m
Costs		
Wages and salaries	447	397
Share-based payments (note 7)	8	8
Total wages and salaries	455	405
Social security costs	37	35
Pensions (note 8)	14	15
	506	455

	Number	Number
Average number of employees, including part-time employees		
Retail	42,740	38,676
SCPD	1	1
	42,741	38,677

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Remuneration report on pages 41 to 45

7. Share-based payments

The expense recognised for share-based payments in the year is £8m (2006 £8m) which comprises share option schemes and share awards

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

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

Sharesave Plan

The Sharesave Plan is a HM Revenue & Customs approved savings scheme, whereby the proceeds from a savings contract, of either three or five years duration, may be used to purchase shares under option. Options are granted at the commencement of the savings contract, at a discount of up to 20% of the market value of the shares at the date of invitation. There are no performance conditions. The scheme is open to all UK employees provided that they have at least one year's service at the date of invitation. The vesting period is 39 months or 63 months and options may be exercised up to six months after the vesting date.

Share Incentive Plan

The Share Incentive Plan is open to all UK employees with at least 18 months service at the date of award. The plan awards free shares to participating employees based on salary, up to a maximum award of £3,000 per employee per year. There are no performance conditions. There is a vesting period of two years (as defined in IFRS 2 'Share-based payment') from the award date. Shares are generally held in Trust for at least three years and are capable of being released to participants at any time thereafter.

Short Term Deferred Incentive Plan

Under the Short Term Deferred Incentive Plan the annual bonuses of the Executive Directors may be deferred into Mitchells & Butlers shares with one matching share awarded for every bonus share. From the grant in December 2006 participants are also entitled to receive Dividend Accrued Shares on vesting equal to the value of the ordinary dividends that would have been paid on the vested shares during the performance period.

Up to and including the grant in December 2004 (relating to the 2003/04 bonus year) there was no additional performance condition over the deferral period. For the grant in December 2005 (relating to the 2004/05 bonus year) an additional earnings per share related performance condition applies in respect of the vesting of matching shares. Matching shares will only be released in full if the Group's adjusted earnings per share over the three year performance period ending 27 September 2008, exceeds by at least 27%, the increase in the UK Retail Price Index for the same period. For the grant in December 2006 (relating to the 2005/06 bonus year) the earnings per share related performance condition still applies in respect of matching shares, however it is now determined with reference to the average adjusted earnings per share over the three year performance period exceeding the UK Retail Price Index growth.

All grants of options up to and including the grant in December 2004 vest in three equal tranches one year, two years and three years after the date of award. For the awards in December 2005 and December 2006 vesting occurs three years after the award date. Shares are transferred to participants on vesting.

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

Performance Restricted Share Plan

The Performance Restricted Share Plan allows Executive Directors and other eligible employees to receive nominal cost options, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three year period. Vesting is conditional upon the achievement of total shareholder return ('TSR') and cash return on cash capital employed ('CROCCE') performance conditions. The vesting period for these options is generally three years followed by a two year exercise period. For the options with the TSR performance condition, Monte Carlo simulations were performed to incorporate the market condition in the measurement of the fair value. For all grants from 2005/06 onwards, participants will be entitled to receive Dividend Accrued Shares on vesting equal to the value of the ordinary dividends that would have been paid on the vested shares during the performance period.

Executive Share Option Plan

The grant of options under the Executive Share Option Plan was discontinued following shareholder approval of changes to Executive Director remuneration in 2006. The last grant of options under this plan was made in June 2005. The option prices were set at an amount not less than the average market value of a share over the three business days immediately prior to the date of grant. Vesting is conditional upon the achievement of an adjusted earnings per share related performance condition. Adjusted earnings per share is basic earnings per share before exceptional items.

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

Rolled-over options

Under the terms of the separation in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over Mitchells & Butlers plc shares. The exchanged options are not subject to performance conditions and were immediately exercisable. The latest possible exercise date for any of the Rolled-over options outstanding at 29 September 2007, is 28 May 2012.

Further details of the above schemes are included in the Remuneration report on pages 37 to 38.

The following tables set out awards and options granted during 2007. No options were granted under the Executive Share Option Plan or Rolled-over options during the period.

Notes to the financial statements continued

7. Share-based payments continued

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan
Number of shares/options awarded in FY 2007	247,346	1,445,698	938,905	115,121

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

2007	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan
		Monte Carlo Simulation and Binomial	Black-Scholes
Valuation model	(iv)		
Weighted average share price		685 0p	869 5p
Exercise price		— ⁽ⁱ⁾	711 0p
Expected dividend yield		— ⁽ⁱⁱ⁾	1 80%
Risk-free interest rate		4 78%	5 19%
Volatility ⁽ⁱⁱⁱ⁾		24 0%	24 0%
Expected life (years) ^(iv)		3 0	3 8

2006	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan
		Monte Carlo Simulation and Binomial	Black-Scholes
Valuation model	Black-Scholes		
Weighted average share price	391 3p	401 0p	509 3p
Exercise price	Nil	— ⁽ⁱ⁾	401 0p
Expected dividend yield	3 27%	— ⁽ⁱⁱ⁾	3 27%
Risk-free interest rate	4 23%	4 21%	4 80%
Volatility ⁽ⁱⁱⁱ⁾	26 0%	26 0%	26 0%
Expected life (years) ^(iv)	3 0	2 8	4 0

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

⁽ⁱⁱ⁾ The expected dividend yield input for the grant of Performance Restricted Share Plan options in 2006 and 2007 is zero as participants are entitled to Dividend Accrued Shares to the value of the ordinary dividends paid during the vesting period.

⁽ⁱⁱⁱ⁾ The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards. Where insufficient share price data is available, competitor share price volatility data over a longer period equal to the expected life of the option or share award is considered.

^(iv) The expected term of the options is taken to be the midpoint between vesting and lapse, except for the Performance Restricted Share Plan where the terms of the plan resulted in it being advantageous for participants to exercise directly after vesting. In this case the expected life has been assumed to equate to the vesting period.

^(v) The fair value of the Short Term Deferred Incentive Plan awarded in FY 2007 is equal to the share price on the date of award as there is no price to be paid and employees are entitled to Dividend Accrued Shares.

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

7. Share-based payments continued

Movements in the awards and options outstanding under these schemes for the years ended 29 September 2007 and 30 September 2006 are as follows

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 1 October 2005	679	4,372	810
Granted	325	2,347	197
Exercised	(253)	(600)	(54)
Lapsed	–	(952)	(74)
Outstanding at 30 September 2006	751	5,167	879
Granted	247	1,446	115
Exercised	(253)	(1,019)	(75)
Lapsed	–	(542)	(44)
Share consolidation ^(a)	–	–	(149)
Outstanding at 29 September 2007	745	5,052	726
Fair value of options granted during the period (pence)			
At 29 September 2007	721.5	477.6 ^(b)	879.5
At 30 September 2006	354.1	275.8 ^(b)	515.0
Weighted average remaining contract life (years)			
At 29 September 2007	1.3	3.2	— ⁽ⁱⁱⁱ⁾
At 30 September 2006	1.3	3.3	— ⁽ⁱⁱⁱ⁾

^(a) The allocated shares in the SIP Trust were consolidated as part of the share consolidation on 18 October 2006, resulting in a reduction of 149,250

^(b) For the Performance Restricted Share Plan the weighted average fair value is shown

⁽ⁱⁱⁱ⁾ Share Incentive Plan shares are capable of remaining with the SIP Trust indefinitely while participants continue to be employed by the Group

	Executive Share Option Plan		Sharesave Plan		Rolled-over Options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 1 October 2005	11,322	263.1	4,932	199.3	7,222	271.9
Granted	–	–	980	401.0	–	–
Exercised	(1,475)	221.7	(35)	173.9	(3,456)	268.9
Lapsed	(107)	297.7	(682)	215.7	(665)	255.2
Options outstanding at 30 September 2006	9,740	268.9	5,195	235.4	3,101	278.7
Granted	–	–	939	711.0	–	–
Exercised	(1,980)	227.6	(1,316)	169.6	(1,475)	283.8
Lapsed	(1)	326.1	(585)	292.4	–	–
Options outstanding at 29 September 2007	7,759	279.5	4,233	353.5	1,626	274.1
Options exercisable						
At 29 September 2007	4,408	244.0	6	169.0	1,626	274.1
At 30 September 2006	2,592	219.0	–	–	3,101	278.7
Fair value of options granted during the period (pence)						
At 29 September 2007	–	–	274.1 ^(a)	–	–	–
At 30 September 2006	–	–	147.7 ^(a)	–	–	–
Range of option prices (pence)						
At 29 September 2007	219.0 – 330.5		169.0 – 711.0		214.5 – 364.5	
At 30 September 2006	219.0 – 330.5		169.0 – 401.0		214.5 – 364.5	

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

Notes to the financial statements continued

7. Share-based payments continued

The weighted average share price during the period was 737.4p (2006 458.0p)

Summarised information about options outstanding at 29 September 2007 under the share option schemes is as follows

Range of exercise prices (pence)	Options outstanding			Options exercisable		
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible ^(a)	5,052	3.2	— ^(a)	41	1.2	— ^(a)
Executive Share Option Plan						
219.0	1,121	5.7	219.0	1,121	5.7	219.0
252.5	3,287	6.7	252.5	3,287	6.7	252.5
326.1 to 330.5	3,351	7.7	326.2	—	—	—
	7,759	6.9	279.5	4,408	6.4	244.0
Sharesave Plan						
169.0	874	1.5	169.0	6	—	169.0
209.0	927	1.2	209.0	—	—	—
258.5	721	2.1	258.5	—	—	—
401.0	801	2.9	401.0	—	—	—
711.0	910	4.0	711.0	—	—	—
	4,233	2.3	353.5	6	—	169.0
Rolled-over options						
181.4 to 242.0	35	2.4	214.5	35	2.4	214.5
242.1 to 303.0	1,447	3.5	266.6	1,447	3.5	266.6
303.1 to 364.5	144	0.4	364.5	144	0.4	364.5
	1,626	3.2	274.1	1,626	3.2	274.1

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

8 Pensions

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

The valuations used for IAS 19 purposes are based on the preliminary results of the latest full actuarial valuation carried out at 31 March 2007 and expected to be finalised in December 2007 updated by the Schemes' qualified actuaries to 29 September 2007. Scheme assets are stated at market value at 29 September 2007 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

In the 52 weeks ended 29 September 2007, the Group paid regular contributions of £10m (2006 £11m) and additional contributions of £40m (2006 £20m) in respect of the defined benefit arrangements. In addition the Group paid £1m (2006 £1m) in respect of the defined contribution arrangements.

The preliminary results of the 2007 actuarial valuation showed a funding deficit using a more prudent basis to discount the scheme liabilities than is required by IAS 19 and a formal recovery plan to 2017 is being finalised with the Trustees. The result of this is that the Group will make additional contributions of £24m in the 52 weeks ending 27 September 2008, of which £20m represents the final instalment of the previously agreed schedule of contributions. This will be followed by further additional contributions of £24m in each of the financial years 2009 and 2010, as part of the recovery plan to close the deficit by 2017. The level of additional contributions will be subject to review during the next actuarial valuation as at 31 March 2010. Employer contribution rates to the defined benefit arrangements for the 52 weeks ending 27 September 2008 are expected to be 24.2% for the MABPP and 42.0% for the MABEPP. Based on these expected contribution rates, it is estimated that total contributions in the 52 weeks ending 27 September 2008 will be £38m, comprising regular contributions of £14m, including £1m payable in respect of the defined contribution arrangements and additional contributions of £24m.

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

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

	2007	2006	2005	2004	2003
Wages and salaries increases	4.9%*	4.4%	4.3%	4.3%	4.2%
Pensions increases	3.4%	2.9%	2.8%	2.8%	2.7%
Discount rate	5.9%	5.0%	5.0%	5.5%	5.3%
Inflation rate	3.4%	2.9%	2.8%	2.8%	2.7%

*For MABPP members (5.9% for MABEPP members). Includes allowance for promotional salary increases.

Notes to the financial statements continued

8 Pensions continued

Mortality assumptions

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

	2007		2006	
	Main Plan years	Exec Plan years	Main Plan years	Exec Plan years
Male member aged 65 (current life expectancy)	19.4	23.6	17.8	17.7
Male member aged 45 (life expectancy at 65)	21.2	24.8	19.4	19.5
Female member aged 65 (current life expectancy)	22.2	26.5	20.7	20.7
Female member aged 45 (life expectancy at 65)	24.0	27.7	22.4	22.4

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 6.1% at 29 September 2007. The actual investment return achieved on the scheme assets over the year was 9.1% (2006 10.8%).

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

	2007		2006	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	7.9	345	7.5	596
Bonds	5.9	854	4.6	488
Property	7.9	93	7.5	98
Fair value of assets		1,292		1,182
Present value of scheme liabilities		(1,310)		(1,281)
Deficit in the schemes recognised as a liability in the balance sheet		(18)		(99)
Associated deferred tax asset		5		32

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of recognised income and expense:

	2007 £m	2006 £m
Group income statement		
Operating profit		
Current service cost (defined benefit plans)	(13)	(14)
Current service cost (defined contribution plans)	(1)	(1)
Charge to operating profit	(14)	(15)
Finance income		
Expected return on pension scheme assets	74	69
Interest on pension scheme liabilities	(63)	(61)
Net finance income in respect of pensions	11	8
Total charge	(3)	(7)

8 Pensions continued

	2007 £m	2006 £m
Group statement of recognised income and expense		
Actual return less expected return on pension scheme assets	24	43
Changes in assumptions underlying the present value of the scheme liabilities	9	(16)
Actuarial gain recognised	33	27

The table below analyses the movement in the Schemes' net deficit in the period

	Pension assets		Pension obligations		Net deficit	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At beginning of period	1,182	1,078	(1,281)	(1,229)	(99)	(151)
Current service cost	-	-	(13)	(14)	(13)	(14)
Interest cost on benefit obligations	-	-	(63)	(61)	(63)	(61)
Expected return on plan assets	74	69	-	-	74	69
Employee contributions	4	3	(4)	(3)	-	-
Employer contributions	50	31	-	-	50	31
Benefits paid	(42)	(42)	42	42	-	-
Actuarial gain/(loss) recognised	24	43	9	(16)	33	27
At end of period	1,292	1,182	(1,310)	(1,281)	(18)	(99)

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

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of recognised income and expense is a £53m gain (2006 £20m gain). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of the Schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 26 September 2004.

Notes to the financial statements continued

9. Exceptional items

	Notes	2007 52 weeks £m	2006 52 weeks £m
Operating exceptional items			
Defence costs	a	–	(4)
Refinancing costs	b	–	(3)
Integration costs	c	(4)	–
Corporate restructuring costs	d	(7)	–
		(11)	(7)
Profits on disposal of properties		39	41
Losses on disposal of properties		(12)	(14)
Impairment arising from the revaluation of the property portfolio	e	(45)	–
Fair value adjustments on classification of non-current assets held for sale	f	(5)	(4)
(Loss)/profit arising on property-related items		(23)	23
Total operating exceptional items		(34)	16
Exceptional finance costs			
Write off of unamortised transaction costs	b	–	(4)
Movement in fair value of derivative financial instruments	g	(221)	–
		(221)	(4)
Total exceptional items before tax		(255)	12
Tax credit/(charge) relating to above items		74	(1)
Exceptional tax released in respect of prior years	h	9	40
Tax credit in respect of change in tax rate	i	17	–
		100	39
Total exceptional items after tax		(155)	51

- a Costs associated with evaluation of the R20 approach to acquire the share capital of Mitchells & Butlers plc and its subsidiaries
- b Refinancing costs consist of operating expenses incurred in relation to the refinancing of the Group's securitised debt, further details of which are given in note 20. The refinancing also gave rise to accelerated amortisation of capitalised transaction costs. This related to secured loan notes, which were repaid on refinancing. The amortisation was charged to finance costs.
- c Costs associated with the Group's acquisition of 239 pub restaurant sites acquired from Whitbread on 21 July 2006.
- d Expenditure incurred in connection with the evaluation of alternative corporate structures for the separation and refinancing of the Group's property portfolio and operating business.
- e Impairment arising from the Group's adoption of a policy of revaluing its freehold and long leasehold land and buildings with effect from 29 September 2007.
- f Fair value adjustments on classification of non-current assets held for sale represent adjustments to the carrying value of property, plant and equipment, prior to transferring these to assets held for sale. This adjustment is made where the expected net sale proceeds are less than the book value.
- g The movement in the fair value of the Group's derivative financial instruments which does not qualify for hedge accounting.
- h Represents the release of provisions relating to tax matters which have been settled principally relating to disposals and qualifying capital expenditure.
- i A deferred tax credit has been recognised in the year following the enactment of legislation in July 2007 which lowers the UK standard rate of corporation tax from 30% to 28% with effect from 1 April 2008.

None of the above exceptional items relate to discontinued operations, as defined by IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

10 Finance costs and revenue

	Notes	2007 52 weeks £m	2006 52 weeks £m
Finance costs			
Securitised and other debt			
– before exceptional charge		(153)	(118)
Exceptional finance costs	9		
– write off of unamortised transaction costs ¹		–	(4)
– movement in fair value of derivative financial instruments ²		(221)	–
		(374)	(122)
Finance revenue			
Interest receivable		6	9
Net finance income from pensions	8	11	8

¹ Accelerated amortisation of capitalised transaction costs relating to secured loan notes repaid as part of the 2006 refinancing

² Represents the movement in the fair value of the Group's derivative financial instruments, which does not qualify for hedge accounting. This arises from the requirement to revalue the swaps at the balance sheet date

11 Tax expense

	2007 52 weeks £m	2006 52 weeks £m
Tax charged in the income statement		
Current tax expense		
UK corporation tax	40	49
Amounts overprovided in previous years	(5)	(33)
Total current tax	35	16
Deferred tax		
Origination and reversal of temporary differences	(51)	18
Adjustments in respect of prior years	(5)	(9)
Change in tax rate	(17)	–
Total deferred tax (note 22)	(73)	9
Total tax (credited)/charged in the income statement	(38)	25
	2007 52 weeks £m	2006 52 weeks restated* £m
Tax on items recognised directly in equity		
Unrealised gains due to revaluations	(317)	–
Indexation of gains in respect of previous revaluations	25	19
Actuarial gains on pension schemes	(10)	(7)
Share-based payments	3	14
Derivative financial instruments	(21)	(1)
Change in tax rate	30	–
Total tax (charge)/credit on items recognised directly in equity	(290)	25

*Restated in respect of a prior year adjustment (see note 2)

Reconciliation of the total tax charge

The tax (credit)/charge in the income statement for the year is higher (2006 lower) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are reconciled below

	2007 52 weeks £m	2006 52 weeks £m
(Loss)/profit on ordinary activities before tax	(48)	220
Accounting (loss)/profit multiplied by the UK standard rate of corporation tax of 30% (2006 30%)	(14)	66
Expenses not deductible for tax purposes	3	3
Non taxable income	–	(2)
Adjustments in respect of prior years	(10)	(42)
Exceptional tax credit in respect of change in tax rate	(17)	–
Total tax (credit)/charge reported in the income statement	(38)	25

**Notes to the financial statements
continued**

12 Dividends

	2007 52 weeks £m	2006 52 weeks £m
Amounts paid and recognised in equity		
In respect of the 53 weeks ended 1 October 2005		
– Final dividend of 7 55p per share	–	38
In respect of the 52 weeks ended 30 September 2006		
– Interim dividend of 3 65p per share	–	18
– Final dividend of 8 60p per share	35	–
In respect of the 52 weeks ended 29 September 2007		
– Special interim dividend of 100 0p per share	486	–
– Interim dividend of 4 25p per share	17	–
	538	56
Proposed final dividend of 10 0p (2006 8 60p) per share	40	35

The payment of the special interim dividend amounting to £486m was made on 25 October 2006. The shareholders approved, at an Extraordinary General Meeting on 17 October 2006, the consolidation of the share capital of the Company by the issue of 34 new ordinary shares of 8½p each for every 41 existing shares of 7½p each.

The Board recommended on 28 November 2007 the proposed final dividend for the 52 weeks ended 29 September 2007. This did not qualify for recognition in the financial statements at 29 September 2007 as it had not been approved by the shareholders at that date.

13 Earnings per ordinary share

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

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

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

	Profit/(loss) £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 29 September 2007			
Loss for the period	(10)	(2.5)p	(2.5)p*
Exceptional items, net of tax	155	38.0p	36.9p
Profit before exceptional items	145	35.5p	34.4p
52 weeks ended 30 September 2006			
Profit for the period	195	39.7p	38.8p
Exceptional items, net of tax	(51)	(10.4)p	(10.2)p
Profit before exceptional items	144	29.3p	28.6p

*The 2007 diluted EPS per ordinary share is unchanged from the basic EPS, as the inclusion of the dilutive potential ordinary shares would reduce the loss per share and is therefore not dilutive

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

	2007 52 weeks millions	2006 52 weeks millions
For basic EPS calculations	408	491
Effect of dilutive potential ordinary shares		
Contingently issuable shares	8	7
Other share options	5	5
For diluted EPS calculations	421	503

On 17 October 2006, shareholders approved a share capital consolidation together with a Special Dividend of 100.0p per ordinary share. The overall effect of the transaction was that of a share repurchase at fair value, therefore no adjustment has been made to comparative data.

At 29 September 2007, nil (2006 nil) contingently issuable shares and 1,034,538 (2006 965,822) 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 antidilutive for the periods presented.

Notes to the financial statements continued

14. Goodwill and other intangible assets

	Computer software £m	Goodwill £m	Total £m
Cost			
At 1 October 2005	28	10	38
Additions	3	–	3
Disposals	(4)	–	(4)
At 30 September 2006	27	10	37
Additions	1	–	1
Disposals	(6)	–	(6)
At 29 September 2007	22	10	32
Accumulated amortisation			
At 1 October 2005	12	–	12
Provided during the year	7	–	7
Disposals	(4)	–	(4)
At 30 September 2006	15	–	15
Provided during the year	6	–	6
Disposals	(6)	–	(6)
At 29 September 2007	15	–	15
Net book value			
At 29 September 2007	7	10	17
At 30 September 2006	12	10	22

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

Impairment tests for goodwill

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

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

As part of the impairment review the recoverable amount for this business is based on value in use. That calculation uses cash flow projections based on current year data. Cash flows beyond the current year have been extrapolated using a steady 1.5% growth rate – which does not exceed the long-term estimated inflation rate for the German market.

The key assumptions for the value in use calculation are those regarding revenue and discount rates.

The post-tax discount rate used to calculate value in use is 7% (2006 6%). This discount rate is derived from the Group's post-tax weighted average cost of capital, adjusted for the effects of taxation and for specific risks relating to the German business.

Revenue growth is assumed to be in line with inflation of 1.5% and profit margins are based on current levels.

The calculation of value in use is most sensitive to changes in assumptions in respect of revenues. However, management believes that the current assumptions used are reasonable.

Impairment reviews were performed on 1 October 2005, 30 September 2006 and 29 September 2007 by comparing the carrying value of the business to which goodwill relates with the recoverable amount. Management determined that there has been no impairment.

15 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 1 October 2005	2,860	918	3,778
Additions	540	144	684
Disposals*	(57)	(135)	(192)
Classified as held for sale	(76)	(21)	(97)
At 30 September 2006	3,267	906	4,173
Exchange differences	1	–	1
Additions	105	154	259
Revaluation	1,087	–	1,087
Impairment arising from the revaluation of the property portfolio	(45)	–	(45)
Disposals*	(37)	(79)	(116)
Classified as held for sale	(5)	(4)	(9)
At 29 September 2007	4,373	977	5,350
Depreciation			
At 1 October 2005	83	248	331
Provided during the year	21	93	114
Disposals*	(4)	(122)	(126)
Fair value adjustment on classification of non-current assets held for sale	2	1	3
Classified as held for sale	(5)	(11)	(16)
At 30 September 2006	97	209	306
Exchange differences	–	1	1
Provided during the year	21	101	122
Disposals*	–	(70)	(70)
Fair value adjustment on classification of non-current assets held for sale	2	3	5
Classified as held for sale	(4)	(3)	(7)
Revaluation	(37)	–	(37)
At 29 September 2007	79	241	320
Net book value			
At 29 September 2007	4,294	736	5,030
At 30 September 2006	3,170	697	3,867
At 1 October 2005	2,777	670	3,447

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

Properties

The majority of the Group's freehold and long leasehold land and buildings, with the exception of land and buildings identified for disposal and leasehold properties with an unexpired term of 50 years or less, were valued as at 29 September 2007 by Colliers CRE, independent chartered surveyors and by Andrew Cox MRICS, Director of Property, Chartered Surveyor

The land and buildings were valued at market value, in accordance with the provisions of Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of the location, the quality of the pub or restaurant and recent market transactions in the sector.

Land and buildings identified for disposal, leasehold outlets with an unexpired term of 50 years or less and fixtures, fittings and equipment, are included at cost, less depreciation.

The 2006 deemed cost carrying value of the Group's property, plant and equipment reflects a valuation undertaken in 1999 which covered all properties then owned by the Group other than leasehold properties having an unexpired term of 50 years or less and which amounted to £328m at 30 September 2006. This valuation was undertaken by external chartered surveyors, Chesterton plc, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The basis of valuation was predominantly existing use value and had regard to trading potential. In 1996, a group restructuring by Six Continents resulted in the transfer at book value of certain property, plant and equipment to a subsidiary that subsequently became part of the Mitchells & Butlers group. The book value included the effect of revaluations undertaken prior to 1996. Accordingly, the 2006 carrying value of the Group's property, plant and equipment reflects those revaluations in its deemed cost under IFRS, which at 30 September 2006 amounted to £374m.

Included within property, plant and equipment are assets with a net book value of £4,321m (2006 £3,273m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Notes to the financial statements continued

15. Property, plant and equipment continued

Finance leases

The net book value of fixtures, fittings and equipment includes £2m (2006 £2m) in respect of assets held under finance leases
The assets are pledged as security for the finance lease liabilities

Net book value

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

	2007 £m	2006 £m
Freehold	3,824	2,799
Leasehold		
– unexpired term of more than 50 years	325	222
– unexpired term of 50 years or less	145	149
	4,294	3,170

In addition to the above, premiums paid on acquiring a new lease are classified in the balance sheet as prepayments of rentals under the leases. At 29 September 2007 an amount of £12m (2006 £14m) was included in the balance sheet

16 Inventories

	2007 £m	2006 £m
Work in progress*	15	18
Goods held for resale	23	24
	38	42

*Work in progress is in respect of property developments

17 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	1	1
Other receivables	39	54
Prepayments	29	26
	69	81

All amounts fall due within one year

Trade and other receivables are non-interest bearing

18. Non-current assets held for sale

	Disposal group		Assets held for sale		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Pubs & Bars						
Land and buildings	–	70	4	4	4	74
Fixtures, fittings and equipment	–	10	1	1	1	11
	–	80	5	5	5	85
Restaurants						
Land and buildings	–	–	1	2	1	2
Fixtures, fittings and equipment	–	–	–	1	–	1
	–	–	1	3	1	3
Total	–	80	6	8	6	88
Fair value adjustments on classification as non-current assets held for sale	–	–	5	3	5	3

18 Non-current assets held for sale continued

Non-current assets held for sale and the disposal group comprise certain operating properties which have been approved for sale, such that the carrying amount is expected to be recovered through a sale, rather than through continuing use. Sales are expected within 12 months from the date of classification. The disposal group held for sale in 2006 represents assets which were sold to Trust Inns Ltd for £101m on 5 October 2006 in a single transaction. This represents the only material disposal included within 'Profits on disposal of properties' in note 9 'Exceptional items'.

The adjustment on classification as non-current assets held for sale forms part of the loss (2006 profit) arising on property-related items in the income statement. The carrying values included within the disposal group and assets held for sale categories above are stated after this adjustment. The charge against income is shown as 'Fair value adjustments on classification of non-current assets held for sale' in note 9 'Exceptional items'.

19. Trade and other payables

	2007 £m	2006 £m
Trade payables	80	70
Other taxation and social security	50	53
Accrued charges	57	82
Other payables	56	46
	243	251

Trade payables and other payables are non-interest bearing

20 Borrowings

	2007			2006		
	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt*	40	2,316	2,356	39	2,374	2,413
Other borrowings	192	–	192	–	–	–
Loan notes**	2	–	2	2	–	2
Finance leases (note 31)	–	1	1	–	1	1
Total borrowings	234	2,317	2,551	41	2,375	2,416

*This debt is secured as explained on page 71

**These loan notes are partially secured by a bank deposit. The effective interest rate is 6.03% (2006 4.68%)

	Group	
	2007 £m	2006 £m
Analysis by year of repayment		
Due within one year or on demand	234	41
Due between one and two years	43	40
Due between two and five years	517	545
Due after five years	1,757	1,790
Total borrowings	2,551	2,416

Securitised debt

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

On 15 September 2006 Mitchells & Butlers Finance plc completed the issue of £655m of further secured loan notes in the form of the A4, AB, C2 and D1 loan notes as detailed below. These were issued under substantially the same terms as the original securitisation in November 2003. The funds raised were mainly used to return £486m to shareholders by way of a Special Dividend and to provide long-term funding for the Whitbread pub restaurant sites acquired. As part of the issue, the original A1 and A3 loan note tranches were repaid and reissued as A1N and A3N loan notes to take advantage of market rates.

Notes to the financial statements continued

20 Borrowings continued

At 29 September 2007 the loan notes consisted of 10 tranches as follows

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 29 September 2007 £m	Expected WAL**
A1N	200	Floating	2011 to 2028	5.69*	200	3 years
A2	550	Fixed-5.57%	2003 to 2028	6.01	456	9 years
A3N	250†	Floating	2011 to 2028	5.92*	250†	3 years
A4	170	Floating	2016 to 2028	5.24*	170	6 years
AB	325	Floating	2020 to 2032	5.25*	325	6 years
B1	350	Fixed-5.97%	2003 to 2023	6.12	305	7 years
B2	350	Fixed-6.01%	2015 to 2028	6.12	350	17 years
C1	200	Fixed-6.47%	2029 to 2030	6.57	200	22 years
C2	50	Floating	2033 to 2034	5.44*	50	6 years
D1	110	Floating	2034 to 2036	5.50*	110	6 years
	2,555†				2,416†	

At 30 September 2006 the loan notes consisted of 10 tranches as follows

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 30 September 2006 £m	Expected WAL**
A1N	200	Floating	2011 to 2028	5.69*	200	4 years
A2	550	Fixed-5.57%	2003 to 2028	6.01	482	10 years
A3N	250†	Floating	2011 to 2028	5.92*	250†	4 years
A4	170	Floating	2016 to 2028	5.24*	170	7 years
AB	325	Floating	2020 to 2032	5.25*	325	7 years
B1	350	Fixed-5.97%	2003 to 2023	6.12	318	8 years
B2	350	Fixed-6.01%	2015 to 2028	6.12	350	18 years
C1	200	Fixed-6.47%	2029 to 2030	6.57	200	23 years
C2	50	Floating	2033 to 2034	5.44*	50	7 years
D1	110	Floating	2034 to 2036	5.50*	110	7 years
	2,555†				2,455†	

† Includes the fair value impact of £45m (2006 £26m) in respect of the currency swaps

* After the effect of interest rate swaps

** The expected remaining weighted average life ('WAL') is based on the amortisation profile of the individual note tranches and assumes refinancing of the notes on the margin step-up dates. The margin step-up dates as at 29 September 2007 are set out below

The notes are secured on the majority of the Group's property and future income streams therefrom. All of the floating rate notes are fully hedged using interest rate swaps which fix the interest rate payable.

Interest and margin is payable on the floating rate notes as follows

Tranche	Interest	Margin	Margin step-up date	Post step-up margin
A1N	3 month LIBOR	0.18%	December 2010	0.45%
A3N	3 month US\$ LIBOR	0.18%	December 2010	0.45%
A4	3 month LIBOR	0.23%	December 2013	0.58%
AB	3 month LIBOR	0.24%	December 2013	0.60%
C2	3 month LIBOR	0.75%	December 2013	1.88%
D1	3 month LIBOR	0.85%	December 2013	2.13%

The overall cash interest rate payable on the loan notes is 5.7% after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other group companies. At 29 September 2007, Mitchells & Butlers Retail Limited had cash and cash equivalents of £89m (2006 £73m) which were governed by the covenants associated with the securitisation. Of this amount £9m (2006 £8m), representing disposal proceeds, was held on deposit in a secured account ('restricted cash'). The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

20. Borrowings continued

The carrying value of the securitised debt in the Group balance sheet at 29 September 2007 is analysed as follows

	2007 £m	2006 £m
Principal outstanding at beginning of period	2,429	1,824
Further loan note issue	–	1,078
Principal repaid during the period	(39)	(460)
Exchange on translation of dollar loan notes	(19)	(13)
Principal outstanding at end of period	2,371	2,429
Deferred issue costs	(20)	(21)
Accrued interest	5	5
Carrying value at end of period	2,356	2,413

At 29 September 2007 the Group had the following committed borrowing facilities

	2007 £m	2006 £m
Undrawn committed borrowing facilities		
Unutilised facilities expire		
Within one year	295	295
Between two and five years	108	300
	403	595

On 28 September 2006 the Group entered into a three year £300m revolving credit facility for general business purposes which incurs interest at LIBOR plus a margin (based on the prevailing level of Group net debt EBITDA). As at 29 September 2007 the Group has drawn an amount of £192m against this facility

21. Financial instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies is set out in the discussion of Treasury policies on page 21 in the Operating and financial review. Derivative financial instruments are not used for trading or speculative purposes.

The primary treasury objectives of the Group are to identify and manage the financial risks that arise in relation to underlying business needs. If appropriate, the Group uses financial instruments and derivatives to manage these risks.

Financial risk management

The main risks which impact the Group result from movements in interest rates and foreign exchange rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage these risks and are described below.

Interest rate risk

The Group uses 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 derivatives. The Group minimises the volatility in its financial statements through the adoption of hedge accounting provisions where appropriate.

Foreign currency risk

The Group's foreign exchange exposure primarily results from the issue of US\$418.75m of Class A3N floating rate notes which form part of the securitised debt (see note 20). At issuance of the notes the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and the interest elements of the notes.

After taking into account these hedging arrangements, the Group does not have a material profit and loss account exposure to movements in foreign exchange rates on monetary assets and liabilities. In addition, the Group is predominantly UK based and therefore does not have a significant currency exposure from its operations.

Credit risk

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Notes to the financial statements continued

21 Financial instruments continued

Derivative financial instruments

Cash flow hedges

At 29 September 2007, the Group held 10 (2006 10) interest rate swap contracts with a nominal value of £1,105m (2006 £1,105m), designated as a hedge of the cash flow interest rate risk of £1,105m (2006 £1,105m) of the Group's floating rate borrowings, comprising the A1N, A3N, A4, AB, C2 and D1 loan notes

The cash flows occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8938% (2006 4.8938%) The contract maturity dates match those of the hedged item The 10 interest rate swaps above are held on the balance sheet at fair value, which is an asset of £36m (2006 £33m liability)

At 29 September 2007 the Group held 1 (2006 1) cross currency interest rate swap contract, with a nominal value of £250m (2006 £250m), designated as a hedge of the cash flow interest rate and currency risk of £250m (2006 £250m) of the Group's A3N floating rate US\$418.75m borrowings The cross currency interest rate swap is held on the balance sheet at a fair value liability of £48m (2006 £29m liability)

The cash flows occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a fixed rate, in sterling, of 5.4445% (2006 5.4445%)

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

During the period a gain of £55m (2006 £22m loss) on cash flow hedges was recognised directly in equity A loss of £15m (2006 £16m) was removed from equity and included in the Group income statement for the period

Derivative financial instruments which do not qualify for hedge accounting

Following the comprehensive review of the Group's options for releasing value from its property portfolio the Group announced on 21 May 2007 its intention to form a property joint venture with R20 In the final stage of the planned transaction, the Group and R20 separately entered into a number of derivative transactions which were intended to be contributed to the joint venture Their purpose was to fix the variable cash flows resulting from the inflation linked rental payments receivable by the proposed property joint venture and the LIBOR linked interest payments on the new debt, as well as to insulate the Group from movements in the fair value of its fixed rate debt

21 Financial instruments continued

Whilst these instruments provide an economic hedge against the future anticipated cash flows associated with a property based refinancing they do not qualify for hedge accounting as defined in IAS39. Movements in their fair values are therefore recognised directly in the Group income statement, within exceptional finance costs. The total fair value movement of these instruments during the year reported within exceptional finance costs was £(221)m and is analysed further below.

	Note	Fair value 2007 £m	Fair value 2006 £m
Interest Rate Derivative Transactions			
5.4390% interest rate swap	a	39	-
5.4390% interest rate swap	a	(39)	-
5.5705% interest rate swap	b	(43)	-
5.2152% interest rate swap	c	(58)	-
Gilt hedges – combined notional principal of £1,385m	b	34	-
Inflation Derivative Transactions			
3.1775% inflation swaps	d	(154)	-
		(221)	-

- a The two 5.4390% forward starting interest rate swaps, were entered into in July 2007 and both have a notional principal of £1,105m. Under the first swap, the Group receives fixed rate interest at 5.4390% and pays floating rate interest at LIBOR and under the second swap the Group pays fixed rate interest at 5.4390% and receives floating rate interest at LIBOR. Their purpose is to enable the movements in the fair value of the Group's existing securitisation hedges to be recorded for the benefit of the proposed property based financing entity, from the period that a transaction is executed. The start date of the swaps will be dependent upon the date of execution of the property based refinancing. The maturity date is 15 September 2036.
- b The 5.5705% forward starting interest rate swap was executed in July 2007 and has a notional principal of £1,300m. The Group pays fixed rate interest at 5.5705% and receives floating rate interest at LIBOR. Four reverse gilt locks with a combined notional principal of £1,385m were executed in July 2007 to mitigate against movements in the fair value of the Group's existing fixed rate bonds. The purpose of the swap is to replicate the impact of the Group's existing fixed rate debt so that movements in the fair value from the transaction date would be for the benefit of the proposed property based financing entity. The reverse gilt locks mitigate against movements in the fair value of the Group's fixed rate debt, offsetting the movement in fair value of the 5.5705% interest rate swap. The start date of the swap will be dependent upon the date of execution of the property based refinancing. The maturity date is 15 September 2030. The reverse gilt locks all have a maturity date of 5 December 2007.
- c The 5.2152% forward starting interest rate swap was entered into in July 2007 and has an accreting and amortising notional principal of £990m. The Group pays fixed rate interest at 5.2152% and receives floating rate interest at LIBOR. The purpose of the swap is to hedge against LIBOR movements associated with the incremental debt intended to be raised by the proposed property based financing entity. The start date of the swap will be dependent upon the date of execution of the property based refinancing. The maturity date is 15 September 2037.
- d In July 2007, the Group entered into two forward starting inflation swaps with a notional quarterly principal of £30m each. The Group receives an annual fixed increase of 3.1775% and pays a variable cash flow based on annual increases in the Retail Price Index within a collar of 0% and 5%. The two inflation swaps are intended to fix the expected rental income stream receivable by the proposed property based financing entity, which would increase annually by the Retail Price Index subject to a collar of 0% and 5%. The start date of the swaps will be dependent upon the date of execution of the property based refinancing. The maturity date is 15 June 2037.

All cash flows under the above swaps are payable or receivable on a quarterly basis.

Notes to the financial statements continued

21. Financial instruments continued

The fair values of the derivative financial instruments are reflected on the balance sheet as follows. These values were measured at 29 September 2007 and may be subject to material movements in the period subsequent to the balance sheet date.

	Derivative financial instruments – fair value				Total £m
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	
29 September 2007					
Cash flow hedges					
Interest rate swaps	30	6	–	–	36
Cross currency swap	–	–	(1)	(47)	(48)
Other hedges					
Interest rate swaps	–	39	(140)	–	(101)
Gilt hedges	–	34	–	–	34
Inflation hedges	–	–	(154)	–	(154)
	–	73	(294)	–	(221)
Total	30	79	(295)	(47)	(233)
30 September 2006	–	–	(7)	(55)	(62)

The derivatives which do not qualify for hedge accounting have been classified as current assets and current liabilities as appropriate. This reflects the fact that the terms of these hedge contracts at 29 September 2007 contained an early termination provision effective on 17 December 2007, subject to extension by mutual agreement between the parties. These terms have now been extended to be effective on 17 December 2008, subject to further extension by mutual agreement between the parties.

Interest rate risk profile

The following tables set out the Group's exposure to interest rate risk and the maturity profile for each class of interest bearing financial asset and financial liability, after taking into account the effect of interest rate swaps.

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
29 September 2007							
Fixed rate							
Securitised debt	(40)	(42)	(45)	(439)	(33)	(1,757)	(2,356)
Finance leases	–	(1)	–	–	–	–	(1)
Floating rate							
Cash and cash equivalents	114	–	–	–	–	–	114
Loan notes	(2)	–	–	–	–	–	(2)
Other borrowings	(192)	–	–	–	–	–	(192)
30 September 2006							
Fixed rate							
Securitised debt	(39)	(39)	(42)	(45)	(458)	(1,790)	(2,413)
Finance leases	–	(1)	–	–	–	–	(1)
Floating rate							
Cash and cash equivalents	372	–	–	–	–	–	372
Loan notes	(2)	–	–	–	–	–	(2)

The interest on fixed rate financial instruments is fixed until the maturity of the instrument. The interest on floating rate financial instruments is reset at intervals of less than one year. The other financial assets and liabilities of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

21. Financial instruments continued

Fair values

Fair values of financial instruments are disclosed below

	2007		2006	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Cash and cash equivalents	117	117	375	375
Securitized debt (excluding interest rate and currency swaps)	(2,356)	(2,408)	(2,413)	(2,542)
Loan notes	(2)	(2)	(2)	(2)
Finance leases	(1)	(1)	(1)	(1)
Provisions	(1)	(1)	(3)	(3)
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps				
– asset	75	75	–	–
– liability	(140)	(140)	(33)	(33)
Currency swaps*	(48)	(48)	(29)	(29)
Inflation swaps	(154)	(154)	–	–
Reverse gilt locks	34	34	–	–
	(2,476)	(2,528)	(2,106)	(2,235)

*Includes £45m (2006 £26m) relating to currency movements on the retranslation of the US\$418.75m A3N loan note, included within net debt (see note 28)

The various tranches of the securitized debt have been valued using period end quoted offer prices. 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 and take into consideration interest and exchange rates prevailing at the balance sheet date. Other financial assets and liabilities are either short-term in nature or book values approximate to fair values.

Notes to the financial statements continued

22 Deferred tax

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

	2007 £m	2006 restated* £m
Deferred tax liability		
Accelerated capital allowances	135	145
Rolled over and held over gains	180	187
Unrealised gains on revaluations	383	133
Depreciated non-qualifying assets	25	29
Total deferred tax liability	723	494
Deferred tax asset		
Retirement benefit obligations (note 8)	5	32
Share-based payments	20	24
Derivative financial instruments	49	9
Short-term temporary differences	1	3
Total deferred tax asset	75	68
Deferred tax in the income statement		
Accelerated capital allowances	(10)	4
Retirement benefit obligations	18	10
Rolled over and held over gains	(7)	(2)
Share-based payments	1	(4)
Short-term temporary differences	2	3
Depreciated non-qualifying assets	(4)	(3)
Derivative financial instruments	(60)	1
Unrealised losses on revaluations	(13)	-
Total deferred tax (credit)/charge in the income statement	(73)	9

*Restated in respect of a prior year adjustment (see note 2)

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £13m (2006 £13m) available for offset against future profits

A deferred tax asset has not been recognised on tax losses with a value of £5m (2006 £5m) because it is not certain that future taxable profits will be available against which the Group can utilise the benefit. These tax losses can be carried forward indefinitely.

Tax consequences arising from the payment of dividends

There are no tax consequences attaching to the payment of dividends by the Group to its shareholders.

23 Provisions

	Property leases £m
At 30 September 2006	3
Additions	-
Utilised	(1)
Amount released in the year	(1)
At 29 September 2007	1

Onerous property provisions comprise future rents payable net of rents receivable on onerous and vacant property leases. The leases extend for periods of up to seven years (2006 eight).

24 Called up share capital

	2007		2006	
	Number of shares	£m	Number of shares	£m
Authorised				
Ordinary shares of 8¼p each	1,181,130,148	101	–	–
Ordinary shares of 7½p each	–	–	1,424,304,003	101
	1,181,130,148	101	1,424,304,003	101
Called up, allotted and fully paid				
Ordinary shares of 8¼p each				
At start of the financial period	486,910,806	34	500,438,040	35
Share capital consolidation	(83,131,113)	–	–	–
Repurchase and cancellation	–	–	(13,527,234)	(1)
At end of the financial period	403,779,693	34	486,910,806	34

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

On 17 October 2006, shareholders approved a share capital consolidation on the basis of 34 new ordinary shares for every 41 existing ordinary shares. This provided for all of the authorised ordinary shares of 7½p each (whether issued or unissued) to be consolidated into new ordinary shares of 8¼p each, which became effective on 18 October 2006.

Details of options granted under the Group's share schemes are contained in note 7.

25 Employee share trusts

The Company has established two employee share trusts.

Share Incentive Plan ('SIP') Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 29 September 2007, the trustees, Hill Samuel ESOP Trustee Limited, were holding 740,210 (2006 910,578) shares in the Company. Of these shares, 419,918 (2006 715,583) have been conditionally gifted to employees and 306,304 (2006 163,716) have been unconditionally gifted to employees, with the remaining 13,988 (2006 31,279) shares being unallocated.

Employee Benefit Trust ('EBT')

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan, Sharesave Plan and the Rolled-over options. The EBT purchases shares in the market from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 29 September 2007, the trustees, Mourant ECS Trustees (Jersey) Limited, were holding 330,239 (2006 1,299,046) shares in the Company.

2006 share numbers are shown prior to the share consolidation.

26. Reconciliation of movements in equity

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 30 September 2006 as restated	34	14	–	3	(12)	(30)	6	1,194	1,209
Exchange differences	–	–	–	–	–	–	1	–	1
Purchase of own shares	–	–	–	–	(42)	–	–	–	(42)
Release of own shares	–	–	–	–	41	–	–	(30)	11
Credit in respect of share-based payments	–	–	–	–	–	–	–	8	8
Total recognised income and expense	–	–	828	–	–	50	–	49	927
Dividends	–	–	–	–	–	–	–	(538)	(538)
At 29 September 2007	34	14	828	3	(13)	20	7	683	1,576

Notes to the financial statements continued

26. Reconciliation of movements in equity continued

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 October 2005 as previously reported	35	14	2	(12)	(24)	6	1,162	1,183
Prior year adjustment	—	—	—	—	—	—	(99)	(99)
At 1 October 2005 as restated	35	14	2	(12)	(24)	6	1,063	1,084
Repurchase and cancellation	(1)	—	1	—	—	—	(58)	(58)
Purchase of own shares	—	—	—	(22)	—	—	—	(22)
Release of own shares	—	—	—	22	—	—	(10)	12
Credit in respect of share-based payments	—	—	—	—	—	—	8	8
Total recognised income and expense	—	—	—	—	(6)	—	247	241
Dividends	—	—	—	—	—	—	(56)	(56)
At 30 September 2006 as restated	34	14	3	(12)	(30)	6	1,194	1,209

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £309m at 29 September 2007 (2006 £234m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 20).

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares.

Capital redemption reserve

The capital redemption reserve movement arose on the repurchase and cancellation by the Company of nil (2006 13,527,234) ordinary shares during the financial period at a cost of £nil (2006 £58m), including expenses. The nominal value of the share capital cancelled of £nil (2006 £1m) was transferred to the capital redemption reserve.

Revaluation reserve

The revaluation reserve represents the unrealised gain generated on revaluation of the property portfolio with effect from 29 September 2007. It comprises the excess of the fair value of the portfolio over deemed cost, net of related deferred taxation.

Own shares held

Own shares held by the Group represent the shares in the Company held in treasury ('treasury shares') and by the employee share trusts.

During the financial period, the Company acquired 1,033,000 (2006 nil) shares for treasury at a cost of £7.4m (2006 £nil), released 220,606 (2006 1,589,880) shares to employees on the exercise of share options for a total consideration of £0.4m (2006 £3.8m), and consolidated 88,443 (2006 nil) shares on 18 October 2006. The 1,241,969 shares held in treasury at 29 September 2007 had a market value of £7.6m (30 September 2006 518,018 shares held had a market value of £3.1m). The aggregate nominal value of the treasury shares held at 29 September 2007 was £106,000 (2006 £37,000).

During the financial period, the employee share trusts acquired 4,967,276 (2006 4,351,933) shares at a cost of £35.0m (2006 £21.6m), released 5,916,545 (2006 4,282,188) shares to employees on the exercise of share options and other share awards for a total consideration of £10.5m (2006 £8.8m) and consolidated 189,906 (2006 nil) shares on 18 October 2006. The 1,070,449 shares held by the trusts at 29 September 2007 had a market value of £6.5m (30 September 2006 2,209,624 shares held had a market value of £13.0m). Further details regarding the employee share trusts are given in note 25.

2006 share numbers are shown prior to the share consolidation.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Goodwill

Goodwill eliminated against reserves at 29 September 2007 was £50m (2006 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

27 Cash flow from operations

	2007 52 weeks £m	2006 52 weeks £m
Operating profit	309	325
Add back Operating exceptional items	34	(16)
Operating profit before exceptional items	343	309
Add back		
Depreciation of property, plant and equipment	122	114
Amortisation of intangibles (computer software)	6	7
Amortisation of lease premiums	1	–
Cost charged in respect of share remuneration	8	8
Defined benefit pension cost less regular cash contributions	3	3
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	483	441
Movements in working capital and pension contributions		
Decrease/(increase) in inventories	4	(3)
Decrease in trade and other receivables	3	7
Increase in trade and other payables	3	6
Movement in provisions	(2)	(1)
Additional pension contributions (note 8)	(40)	(20)
Cash flow from operations before exceptional items	451	430
Integration costs paid	(4)	–
Cash flow from operations	447	430

28. Analysis of net debt

	2007 £m	2006 £m
Cash and cash equivalents (see below)	117	375
Securitised debt (note 20)	(2,356)	(2,413)
Other borrowings (note 20)	(192)	–
Derivatives hedging balance sheet debt* (note 21)	(45)	(26)
Loan notes (note 20)	(2)	(2)
Finance leases (note 20)	(1)	(1)
	(2,479)	(2,067)

*Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US dollar denominated loan notes (see note 21). This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and in hand of £80m (2006 £260m) plus cash deposits with an original maturity of three months or less of £37m (2006 £115m).

29 Movement in net debt

	2007 52 weeks £m	2006 52 weeks £m
Net (decrease)/increase in cash and cash equivalents	(258)	176
Add back cash flows in respect of other components of net debt		
Proceeds from cash deposits with a maturity of greater than three months	–	(1)
Repayment of principal in respect of other loans	–	1
Repayment of principal in respect of securitised debt	39	460
Proceeds of issue of securitised debt	–	(1,078)
Proceeds of issue of other borrowings	(192)	–
Increase in net debt arising from cash flows ('Net cash flow' per note 30)	(411)	(442)
Non-cash movements	(1)	–
Increase in net debt	(412)	(442)
Opening net debt	(2,067)	(1,625)
Closing net debt	(2,479)	(2,067)

Notes to the financial statements continued

30 Net cash flow

	2007 52 weeks £m	2006 52 weeks £m
Operating profit before exceptional items	343	309
Depreciation and amortisation	129	121
EBITDA before exceptional items*	472	430
Working capital movement	8	9
Other non-cash items	11	11
Additional pension contributions (note 8)	(40)	(20)
Cash flow from operations before exceptional items	451	430
Net capital expenditure**	(99)	(583)
Cash flow from operations before exceptional items and after net capital expenditure	352	(153)
Integration costs paid	(4)	–
Cash flow from operations after net capital expenditure	348	(153)
Interest paid	(151)	(115)
Interest received	6	8
Tax paid	(33)	(48)
Dividends paid	(538)	(56)
Purchase of own shares	(46)	(76)
Proceeds on release of own shares held	11	12
Defence costs (note 9)	–	(4)
Expenditure associated with refinancing	(4)	(10)
Corporate restructuring costs	(4)	–
Net cash flow (note 29)	(411)	(442)

*Earnings before interest, tax depreciation, amortisation and exceptional items

**Comprises purchases of property, plant and equipment and intangibles less proceeds from the sale of property, plant and equipment

31 Financial commitments

Leases

The vast majority of the Group's leases are industry standard UK pub or commercial property leases which provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. They generally do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Operating lease commitments – Group as lessee

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

	2007 £m	2006 £m
Due within one year	48	49
Between two and five years	158	159
After five years	556	601
	762	809

The future minimum rentals expected to be received under non-cancellable subleases as at 29 September 2007 amounted to £25m (2006 £27m)

31 Financial commitments continued

Operating lease receivables – Group as lessor

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

	2007 £m	2006 £m
Due within one year	7	7
Between two and five years	23	21
After five years	31	36
	61	64

Lease income recognised in the year was as follows

	2007 52 weeks £m	2006 52 weeks £m
Standard lease income	9	10

Finance lease commitments – Group as lessee

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

	2007 £m	2006 £m
Due within one year	–	–
Between two and five years	1	1
	1	1

Due to the timing of the expiry of the finance lease commitments, there is no material difference between the total future minimum lease payments and their present value

Finance leases relate to various items of fixtures, fittings and equipment (see note 15)

Capital commitments

	2007 £m	2006 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	26	28

32 Contingent liabilities

The Group has given indemnities in respect of the disposal of certain companies previously within the Six Continents group. It is the view of the Directors that such indemnities are not expected to result in financial loss to the Group.

Notes to the financial statements continued

33 Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. As such, there were no transactions with related parties requiring disclosure under IAS 24 'Related Party Disclosures' during either the current year or the previous year.

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following principal operating companies:

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Mitchells & Butlers Retail Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	England and Wales	United Kingdom	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Mitchells & Butlers Germany GmbH*	Germany	Germany	Leisure retailing
Standard Commercial Property Developments Ltd*	England and Wales	United Kingdom	Property development

*Shares held directly by Mitchells & Butlers plc

A full list of subsidiary undertakings will be annexed to the next annual return of Mitchells & Butlers plc to be filed with the Registrar of Companies.

Compensation of key management personnel of the Group

	2007 £m	2006 £m
Short-term employee benefits	4	3
Post-employment benefits	2	2
Share-based payments	4	4
	10	9

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

Five year review
Income statement information

Overview Operating and financial review Reports Accounts Shareholder information

	IFRS			UK GAAP		
	2007 52 weeks £m	2006 52 weeks £m	2005 52 weeks £m	2004 restated* £m	Pro forma 2003 restated* £m	2003 restated* £m
Revenue						
Pubs & Bars	968	958	939	913	873	873
Restaurants	908	762	684	641	614	614
Retail	1,876	1,720	1,623	1,554	1,487	1,487
SCPD	18	-	8	6	17	17
	1,894	1,720	1,631	1,560	1,504	1,504
Operating profit before exceptional items						
Pubs & Bars	191	179	175	173	172	172
Restaurants	145	130	113	99	92	92
Retail	336	309	288	272	264	264
SCPD	7	-	1	1	2	2
	343	309	289	273	266	266
Operating exceptional items	(11)	(7)	(4)	(2)	-	(5)
(Loss)/profit arising on property related items**	(23)	23	1	2	-	-
Total operating profit**	309	325	286	273	266	261
Non-operating exceptional items	-	-	-	-	-	(42)
Profit before interest	309	325	286	273	266	219
Finance charge	-	-	-	-	(76)	-
Interest on net debt	(147)	(109)	(103)	(101)	-	(55)
Exceptional interest charge	(221)	(4)	-	(2)	-	(8)
Net finance income/(charge) on pensions	11	8	3	1	(2)	(2)
(Loss)/profit before taxation	(48)	220	186	171	188	154
Taxation credit/(charge)	38	(25)	(59)	(53)	(61)	(37)
(Loss)/profit for the financial year	(10)	195	127	118	127	117
(Loss)/earnings per share						
Basic	(2 5)p	39 7p	24 9p	21 1p	-	15 9p
Diluted	(2 5)p	38 8p	24 5p	21 0p	-	15 9p
Adjusted/pro forma	35 5p	29 3p	25 4p	20 9p	17 3p	19 2p
Adjusted/pro forma as reported in year	-	-	-	22 2p	18 4p	-
Dividends paid and proposed***						
Normal dividends (£m)	57	53	54	49	-	29
Special dividends (£m)	486	-	-	501	-	-
Normal dividends per share	14 25p	12 25p	10 75p	9 50p	-	5 65p

*Restated on the full adoption of FRS 17 'Retirement Benefits'

** (Loss)/profit arising on property related items has been reclassified under UK GAAP in 2004 and prior in order to be consistent with the IFRS presentation

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

Results for 2005 are presented on a 52 week basis to aid comparability with previous years. The 53 week 2005 results under both IFRS and UK GAAP are available in full from the Company's website, www.mbpplc.com/ifrs. The 2005 results on a 52 week basis are unaudited.

The Mitchells & Butlers group was created on its separation from Six Continents on 15 April 2003. Significant changes were made to the financing structure of the Group which resulted in the replacement of inter-company balances owed to Six Continents with external debt. In addition, the Mitchells & Butlers group no longer benefited from the Six Continents group tax arrangements that were in place prior to the separation. The pro forma group income statement for 2003 therefore presents the results on the basis that the post separation financing and taxation structure had been in place since 1 October 2002. The pro forma income statement is also stated before exceptional items.

Adjusted earnings per share is stated after removing the impact of exceptional items, less tax thereon.

The adjustments required to make UK GAAP historic information consistent with that presented under IFRS relate to share-based payment charges and the different calculation basis of deferred tax under IFRS.

Five year review
Balance sheet information

	IFRS			UK GAAP	
	2007 £m	2006 restated** £m	2005 restated** £m	2004 restated* £m	2003 restated* £m
Goodwill and other intangible assets	17	22	26	10	11
Property, plant and equipment	5,030	3,867	3,447	3,509	3,522
Lease premiums	11	13	16	-	-
Total non-current assets	5,058	3,902	3,489	3,519	3,533
Inventories	38	42	39	43	43
Operating receivables	68	80	77	82	84
Non-current assets held for sale	6	88	9	-	-
Operating payables	(240)	(243)	(220)	(197)	(176)
Net current operating liabilities	(128)	(33)	(95)	(72)	(49)
Total operating assets less current operating liabilities	4,930	3,869	3,394	3,447	3,484
Provisions	(1)	(3)	(4)	(2)	(4)
Net operating assets	4,929	3,866	3,390	3,445	3,480
External net debt	(2,479)	(2,067)	(1,625)	(1,632)	(1,228)
Derivative financial instruments	(188)	(36)	(35)	-	-
Corporate taxation	(18)	(22)	(60)	(59)	(50)
Deferred taxation	(648)	(426)	(435)	(182)	(174)
Pension liabilities	(18)	(99)	(151)	(114)	(170)
Proposed dividend	-	-	-	(34)	(29)
Balances relating to exceptional items	-	(3)	-	(1)	(4)
Non-operating payables	(2)	(4)	-	-	-
Net assets	1,576	1,209	1,084	1,423	1,825

*Restated on the full adoption of FRS 17 'Retirement Benefits'

**Restated in respect of a prior year adjustment (see note 2 to the financial statements)

Five year review
Cash flow information

Overview Operating and financial review Reports Accounts Shareholder information

	IFRS			UK GAAP		
	2007 £m	2006 £m	2005 £m	2004 restated* £m	Pro forma 2003 restated* £m	2003 restated* £m
Operating profit before exceptional items	343	309	295	273	266	266
Depreciation and amortisation	129	121	116	108	99	99
EBITDA**	472	430	411	381	365	365
Other non-cash items	11	11	7	14	(1)	(1)
Working capital movement	8	9	16	28	7	7
Additional pension contributions	(40)	(20)	(30)	(40)	(27)	(27)
Net cash flow from operations**	451	430	404	383	344	344
Net capital expenditure	(99)	(583)	(110)	(99)	(103)	(103)
Operating cash flow after capital expenditure**	352	(153)	294	284	241	241
Net interest paid	(145)	(107)	(102)	(98)		(49)
Tax paid	(33)	(48)	(43)	(34)		(44)
Normal dividends paid	(52)	(56)	(50)	(44)		-
Special dividends paid	(486)	-	-	(501)		-
Issue of ordinary shares	-	-	2	8		4
Purchase of own shares	(46)	(76)	(101)	(12)		-
Proceeds on release of own shares held	11	12	14	1		-
Operating exceptional expenditure	-	-	(4)	(5)		(38)
Expenditure associated with refinancing	(4)	(10)	-	(22)		(1)
Facility fees paid	-	-	-	-		(15)
Defence costs (note 9)	-	(4)	-	-		-
Corporate restructuring costs (note 9)	(4)	-	-	-		-
Integration costs paid (note 9)	(4)	-	-	-		-
Net cash flow	(411)	(442)	10	(423)	241	98

*Restated on the full adoption of FRS 17 'Retirement Benefits'

**Before exceptional items

All years are for 52 week periods with the exception of 2005 which is a 53 week period

**Mitchells & Butlers plc –
parent company balance sheet
29 September 2007**

	Notes	2007 £m	2006 £m
Fixed assets			
Investments	7	1,739	1,738
Current assets			
Debtors	8	676	622
Derivative financial instruments	10	73	–
Investments		2	114
Cash at bank and in hand		27	172
		778	908
Creditors amounts falling due within one year	9	(2,022)	(1,692)
Derivative financial instruments	10	(82)	–
Net current liabilities		(1,326)	(784)
Net assets before net pension liabilities		413	954
Net pension liabilities	3	(13)	(65)
Net assets		400	889
Capital and reserves			
Called up share capital	11, 12	34	34
Share premium account	12	14	14
Capital redemption reserve	12	3	3
Profit and loss account reserve	12	349	838
Equity shareholders' funds		400	889

Signed on behalf of the Board

Karim Naffah

Director

28 November 2007

Tim Clarke

Director

28 November 2007

The accounting policies and the notes on pages 92 to 99 form an integral part of these financial statements

We have audited the parent company financial statements of Mitchells & Butlers plc for the year ended 29 September 2007 which comprise a balance sheet and the related notes 1 to 14. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Mitchells & Butlers plc for the year ended 29 September 2007.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the parent company Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 29 September 2007,
- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP

Registered auditors
London
28 November 2007

Notes to the parent company financial statements

1 Accounting policies

Basis of accounting

The financial statements have been prepared under the historic cost convention. They comply with applicable accounting standards in the United Kingdom.

Fixed asset investments

The Company's investments in group undertakings are held at cost less provision for impairment.

Deferred taxation

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas companies in the absence of any commitment by the company to make the distribution.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Employee benefits

1 Pension obligations

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

The liability recognised in the balance sheet in respect of the Company's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets, shown net of deferred tax. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. The current service cost of providing pension benefits to employees, together with the cost of any benefits relating to past service, is charged to operating profit and included in staff costs. The interest cost and the expected return on assets are shown as a net amount of finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

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

11 Share-based compensation

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

Own shares

The cost of own shares held in treasury ('treasury shares') or by the Company's employee share trusts for the purpose of fulfilling obligations in respect of the Group's employee share plans are deducted from shareholders' funds in the Company and Group balance sheet.

Dividends

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

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

This applies to the euro loan from Mitchells & Butlers Germany GmbH, which is a monetary item, converted at the period end rate with exchange differences arising passing through the profit and loss account and the euro investment in Mitchells & Butlers Germany GmbH, which is a non-monetary item and therefore should be held at cost.

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

Derivative financial instruments

The Company uses interest rate swaps and gilt hedges to hedge against the Mitchells & Butlers group's exposure to changes in interest rates and movements in the value of the Group's fixed rate debt. The hedged items are held by a subsidiary undertaking. Derivative financial instruments are not used for trading or speculative purposes.

Interest rate swap contracts are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Fair value is calculated as the present value of the estimated future cash flows. Changes in the fair value of these instruments are recognised in the profit and loss account in the period in which the changes arise.

Profit and loss account

The Company has taken advantage of Section 230 of the Companies Act 1985 and not presented its own profit and loss account. The Company recorded a profit after tax of £50m (2006 £667m), less dividends of £538m (2006 £56m).

Auditors' remuneration for audit services to the Company was £21,000 (2006 £20,000). This is borne by another group company as are any other costs relating to non-audit services (see note 5 to the Group financial statements).

The consolidated financial statements of Mitchells & Butlers plc are required to comply with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results can differ from those estimates. Estimates are used when accounting for items such as amortisation, asset impairments and pensions.

Exchange rates

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.48 (2006 £1 = €1.46) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.43 (2006 £1 = €1.47).

2. Recent accounting developments

During the year the Accounting Standards Board ('ASB') issued the following standards, all of which have an effective date after the date of these financial statements and have not been adopted early by the Company.

FRS 29 (IFRS 7) 'Financial Instruments Disclosures' will require disclosure of additional information relating to the Company's financial instruments with effect from 1 January 2007. The Company will be exempt from the requirements of this standard as the information will be included in the consolidated financial statements of the Group.

FRS 25 'Financial Instruments: Disclosure and Presentation' has been revised with effect from 1 January 2007 to remove disclosures which are now incorporated within the scope of FRS 29 (IFRS 7) 'Financial Instruments: Disclosures'.

During the year the ASB issued an amendment to FRS 17 'Retirement Benefits' with effect from 6 April 2007. The Company has applied the amendment early in these financial statements, incorporating the additional disclosure requirements and valuing the assets of the defined benefit schemes using current bid price instead of mid-market value.

3 Pensions

The Company accounts for pensions under FRS 17 'Retirement Benefits'.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 8 page 63 to the consolidated financial statements.

Pension costs are assessed in accordance with the advice of the Scheme's qualified actuaries. The Company's total pension cost included within operating profit for the 52 weeks ended 29 September 2007 under FRS 17 was £14m (2006 £15m), comprising £13m (2006 £14m) in respect of the defined benefit pension arrangements and £1m (2006 £1m) in respect of the defined contribution arrangements.

The valuations used for FRS 17 purposes are based on the preliminary results of the latest full actuarial valuation carried out at 31 March 2007 and expected to be finalised in December 2007, updated by the independent qualified actuaries to 29 September 2007. Scheme assets are stated at market value at 29 September 2007 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal financial assumptions used by the actuaries at the balance sheet date and the basis of these are contained within note 8 on page 63 to the consolidated financial statements.

**Notes to the parent company
financial statements
continued**

3. Pensions continued

The long-term rates of return on assets at 29 September 2007 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2008 financial year. The 2006 rates shown are used in calculating the 2007 expected return.

	2007		2006		2005	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	7.9	345	7.5	598	7.5	563
Bonds	5.9	854	4.6	488	4.6	428
Property	7.9	93	7.5	99	7.5	90
Fair value of assets		1,292		1,185		1,081
Present value of scheme liabilities		(1,310)		(1,281)		(1,229)
Deficit in the schemes recognised as a liability in the balance sheet		(18)		(96)		(148)
Associated deferred tax asset		5		31		49
Net pension liabilities		(13)		(65)		(99)

	2007 £m	2006 £m
Statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	24	43
Changes in assumptions underlying the valuation of the scheme assets and present value of the scheme liabilities	6	(16)
Actuarial gain recognised	30	27

	2007	2006	2005	2004	2003
History of experience gains and losses					
Difference between the expected and actual return on scheme assets					
Amount (£m)	24	43	100	27	39
Percentage of scheme assets	2%	4%	9%	3%	5%
Experience gains and losses on scheme liabilities					
Amount (£m)	-	-	-	20	(11)
Percentage of the present value of the scheme liabilities	-	-	-	2%	(1)%
Amount recognised in the statement of total recognised gains and losses					
Amount (£m)	30	27	(7)	39	(71)
Percentage of the present value of the scheme liabilities	2%	2%	(1)%	4%	(7)%

The following amounts relating to the Company's defined benefit arrangements have been recognised in the Company profit and loss account and statement of total recognised gains and losses:

	2007 52 weeks £m	2006 52 weeks £m
Profit and loss account		
Operating profit		
Current service cost	(13)	(14)
Charge to operating profit	(13)	(14)
Interest		
Expected return on pension scheme assets	74	69
Interest on pension scheme liabilities	(63)	(61)
Net finance income in respect of pensions	11	8
Net pension cost before taxation	(2)	(6)

3. Pensions continued

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

	Pension assets		Pension obligations		Net deficit	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At beginning of period	1,185	1,081	(1,281)	(1,229)	(96)	(148)
Current service cost	—	—	(13)	(14)	(13)	(14)
Interest cost on benefit obligations	—	—	(63)	(61)	(63)	(61)
Expected return on plan assets	74	69	—	—	74	69
Employee contributions	4	3	(4)	(3)	—	—
Employer contributions	50	31	—	—	50	31
Benefits paid	(42)	(42)	42	42	—	—
Actuarial gain/(loss) recognised	21	43	9	(16)	30	27
At end of period	1,292	1,185	(1,310)	(1,281)	(18)	(96)

4. Employees and Directors

	2007 52 weeks Number	2006 52 weeks Number
Average number of employees, including part-time employees	9	9

5. Share-based payments

The expense recognised for share-based payments in the year is £4m (2006 £4m) which comprises share option schemes and share awards to the employees of the Company

The Company had six share-based payment schemes, all of which are equity-settled, in operation during the year. These are described on page 59.

The tables on page 60 set out awards and options granted by the Company during 2007 and 2006. The Company has used separate option pricing models and assumptions for each plan. Details of how the fair value of each option was calculated are also included on pages 59 and 60.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 29 September 2007 and 30 September 2006 in relation to the employees of the Mitchells & Butlers group are shown on page 61.

**Notes to the parent company
financial statements
continued**

5. Share-based payments continued

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 29 September 2007 and 30 September 2006 are as follows

	Short Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 1 October 2005	679	2,677	18
Granted	325	1,098	4
Exercised	(253)	(384)	—
Lapsed	—	(565)	—
Outstanding at 30 September 2006	751	2,826	22
Granted	247	652	2
Exercised	(253)	(713)	—
Lapsed	—	(295)	—
Share consolidation ⁽ⁱ⁾	—	—	(4)
Outstanding at 29 September 2007	745	2,470	20
Fair value of options granted during the period (pence)			
At 29 September 2007	721.5	477.6 ⁽ⁱⁱ⁾	879.5
At 30 September 2006	354.1	275.8 ⁽ⁱⁱ⁾	515.0
Weighted average remaining contract life (years)			
At 29 September 2007	1.3	3.1	— ⁽ⁱⁱⁱ⁾
At 30 September 2006	1.3	3.2	— ⁽ⁱⁱⁱ⁾

(i) The allocated shares in the SIP Trust were consolidated as part of the share consolidation on 18 October 2006, resulting in a reduction of 3,775

(ii) For the Performance Restricted Share Plan the weighted average fair value is shown

(iii) SIP shares are capable of remaining within the SIP Trust indefinitely while participants continue to be employed by the Group

	Executive Share Option Plan		Sharesave Plan		Rolled-over Options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 1 October 2005	5,033	259.9	42	175.4	2,742	274.9
Granted	—	—	2	401.0	—	—
Exercised	(353)	219.0	—	—	(937)	269.7
Lapsed	—	—	—	—	—	—
Options outstanding at 30 September 2006	4,680	263.0	44	187.3	1,805	277.6
Granted	—	—	—	—	—	—
Exercised	(1,050)	219.0	(16)	169.0	(922)	280.3
Lapsed	—	—	—	—	—	—
Options outstanding at 29 September 2007	3,630	275.7	28	198.0	883	274.8
Options exercisable						
At 29 September 2007	2,249	244.7	—	—	883	274.8
At 30 September 2006	1,571	219.0	—	—	1,805	277.6
Fair value of options granted during the period (pence)						
At 29 September 2007	—	—	—	—	—	—
At 30 September 2006	—	—	145.3	—	—	—
Range of option prices (pence)						
At 29 September 2007	219.0 – 326.1		169.0 – 401.0		259.7 – 364.5	
At 30 September 2006	219.0 – 326.1		169.0 – 401.0		259.7 – 364.5	

The weighted average share price during the period was 737.4p (2006 458.0p)

Summarised information about options over the Company's shares outstanding at 29 September 2007 under the share option schemes, in respect of the employees of the Mitchells & Butlers group, is shown on page 62

5 Share-based payments continued

Summarised information about options outstanding, in respect of the employees of the Company, at 29 September 2007 under the share option schemes is as follows

Range of exercise prices (pence)	Options outstanding			Options exercisable		
	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible ^(a)	2,470	3.1	— ^(a)	—	—	— ^(a)
Executive Share Option Plan						
219.0	520	5.7	219.0	520	5.7	219.0
252.5	1,729	6.7	252.5	1,729	6.7	252.5
326.1	1,381	7.7	326.1	—	—	—
	3,630	6.9	275.7	2,249	6.4	244.7
Sharesave Plan						
169.0	19	1.5	169.0	—	—	—
209.0	7	0.5	209.0	—	—	—
401.0	2	2.5	401.0	—	—	—
	28	1.4	198.0	—	—	—
Rolled-over Options						
242.1p to 303.0p	795	3.2	264.9	795	3.2	264.9
303.1p to 364.5p	88	0.4	364.5	88	0.4	364.5
	883	2.9	274.8	883	2.9	274.8

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

6. Dividends

Dividends paid and recognised in equity by the Company in the period are disclosed within note 12 on page 68 to the consolidated financial statements

7. Fixed asset investments

	Shares in group undertakings £m
Cost	
At 30 September 2006 and 29 September 2007	1,745
Provision	
At 30 September 2006	7
Released during year	(1)
At 29 September 2007	6
Net book value	
At 29 September 2007	1,739
At 30 September 2006	1,738

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following principal operating companies

Name of subsidiary	Country of incorporation	Country of operation	Nature of business
Mitchells & Butlers Retail Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	England and Wales	United Kingdom	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Mitchells & Butlers Germany GmbH*	Germany	Germany	Leisure retailing
Standard Commercial Property Developments Ltd*	England and Wales	United Kingdom	Property development

*Shares held directly by Mitchells & Butlers plc

A full list of subsidiary undertakings will be annexed to the next annual return of Mitchells & Butlers plc to be filed with the Registrar of Companies

8 Debtors

	2007 £m	2006 £m
Amounts owed by group undertakings	625	581
Group relief receivable	50	36
Deferred tax	–	3
Other debtors	–	1
Prepayments	1	1
	676	622

All amounts fall due within one year

9. Creditors amounts falling due within one year

	2007 £m	2006 £m
Borrowings	192	6
Amounts owed to group undertakings	1,808	1,680
Deferred tax	18	–
Other creditors	1	4
Accruals	3	2
	2,022	1,692

Borrowings in 2007 comprise £192m drawn down against the three year £300m revolving credit facility, entered into on 28 September 2006, for general business purposes. Borrowings in 2006 comprise overdrafts which were repayable on demand.

10 Derivative financial instruments

In advance of the intended property based refinancing, a number of derivative instruments were executed by or transferred to the Company, to mitigate against movements in the value of the Group's existing fixed rate debt. These are explained further in note 21 on page 76 to the consolidated financial statements.

These instruments do not qualify for hedge accounting within the Company as they cannot be designated as a hedge against the cash flows of any specific financial instrument anticipated as part of a future property based refinancing. They include the two 5.4390% interest rate swaps, the 5.5705% interest rate swap and the reverse gilt locks described in note 21 on page 77 to the consolidated financial statements.

Movements in their fair values are recognised directly in the Company's profit and loss account. The total impact of the above derivative financial instruments during the year was a charge of £9m.

11. Called up share capital

Details of the amount and nominal value of authorised and called up, allotted and fully paid share capital are contained in note 24 on page 81 to the consolidated financial statements.

12 Share capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account reserve			Total share capital and reserves £m
				Own shares £m	Other £m	Total £m	
At 30 September 2006	34	14	3	(12)	850	838	889
Purchase of Own shares	—	—	—	(42)	—	(42)	(42)
Release of Own shares held	—	—	—	41	(30)	11	11
Credit in respect of employee share schemes	—	—	—	—	8	8	8
Actuarial gain on pension schemes	—	—	—	—	30	30	30
Deferred tax relating to actuarial gain (including effect of tax rate change)	—	—	—	—	(8)	(8)	(8)
Profit after taxation	—	—	—	—	50	50	50
Dividends	—	—	—	—	(538)	(538)	(538)
At 29 September 2007	34	14	3	(13)	362	349	400

The profit and loss account reserve is wholly distributable after the deduction for Own shares

Included in the profit and loss account reserve is a pension reserve of £13m (2006 £65m) which equates to the net pension liabilities under FRS 17

Own shares

Own shares held by the Company represent the shares in the Company held in treasury ('treasury shares') and by the employee share trusts

During the period, the Company acquired 1,033,000 (2006 nil) shares for treasury at a cost of £7.4m (2006 £nil), released 220,606 (2006 1,589,880) shares to employees on the exercise of share options for a total consideration of £0.4m (2006 £3.8m), and consolidated 88,443 (2006 nil) shares on 18 October 2006. The 1,241,969 shares held in treasury at 29 September 2007 had a market value of £7.6m (2006 518,018 shares held had a market value of £3.1m). The aggregate nominal value of the treasury shares held at 29 September 2007 was £106,000 (2006 £37,000).

During the period, the employee share trusts acquired 4,967,276 (2006 4,351,933) shares at a cost of £35.0m (2006 £21.6m), released 5,916,545 (2006 4,282,188) shares to employees on the exercise of share options and other share awards for a total consideration of £10.5m (2006 £8.8m) and consolidated 189,906 (2006 nil) shares on the 18 October 2006. The 1,070,449 shares held by the trusts at 29 September 2007 had a market value of £6.5m (2006 2,209,624 shares held had a market value of £13.0m).

2006 share numbers are shown prior to the share consolidation

13 Deferred tax asset/(liability)

	£m
At 30 September 2006	34
Profit and loss account	(39)
Profit and loss account reserve	(8)
At 29 September 2007	(13)

Analysed as tax on timing differences related to

	2007 £m	2006 £m
Derivative financial instruments	(21)	—
Share-based payments	3	3
Pensions	5	31
Deferred tax (liability)/asset	(13)	34

The deferred tax asset in respect of pensions is netted off the pension liability in note 3

14 Related party transactions

Under FRS 8 'Related Party Disclosures' the Company is not required to provide related party disclosures in its own financial statements, as they are presented with the consolidated financial statements of the Group

Shareholder information

Electronic communication

Shareholders can register to receive an e-mail notification of the availability of the Company's latest shareholder communications at the following web link www.mbpplc.com/ecomms. The website also enables shareholders to view details of their own shareholding or electronically appoint a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting.

Following recent changes in legislation the Company will be seeking authority to amend its Articles of Association at the 2008 AGM to enable it to make electronic communication with shareholders the default position. The Company intends to enclose communication election cards with the interim dividend payment mailing in 2008. Shareholders will have the right to request to receive paper communications, however this presents an opportunity for the Company to benefit from reducing costs whilst reducing its impact on the environment.

Interim results

The Company does not intend to publish future interim results in hard copy. The interim results will be available online at www.mbpplc.com/reports.

Amalgamating your share accounts

If you received more than one copy of this report, it may be because the Registrar has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future, you can have all your shares amalgamated into one account by contacting the Registrar at the address below.

Dividend mandates

Shareholders who wish dividends to be paid directly into a bank/building society account, should contact the Registrar for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures that your account is credited on the due date.

Dividend reinvestment plan ('DRIP')

Shareholders can choose to reinvest dividends received to purchase further shares in the Company through a DRIP. A DRIP application form is available from the Registrar or at the following web link www.mbpplc.com/dividends.

Low cost share dealing service

A simple, low cost postal facility for buying and selling Mitchells & Butlers plc ordinary shares is available through the Company's Registrar, information may be obtained from the Registrar's address below or at www.shareview.co.uk/dealing.

Individual savings accounts ('ISAs')

ISAs in Mitchells & Butlers plc ordinary shares are available through the Registrar and information may be obtained from the Registrar's address below.

Share price information

The latest Mitchells & Butlers plc share price is available at the following web link www.mbpplc.com/shareprice, in the financial press or on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone +44 (0)906 843 0000 (calls charged at 60p per minute).

ShareGift

The Orr Mackintosh Foundation operates this charity share donation scheme for shareholders with small holdings of shares, whose value makes them uneconomic to sell. Details can be obtained from the Registrar or the ShareGift website www.ShareGift.org or by calling ShareGift on +44 (0)20 7930 3737.

Corporate Social Responsibility Review

The Mitchells & Butlers Corporate Social Responsibility Review 2007 is available on the Company's website and can be downloaded directly by visiting www.mbpplc.com/csrreview. If you do not have access to the internet and would like a printed copy, please write to the Communications Department at the registered office shown below.

Special Dividend and share consolidation

On 25 October 2006 the Company paid a Special Dividend of £1 per share to shareholders on the register at the close of business on 17 October 2006. As approved by shareholders on 17 October 2006, the Special Dividend was accompanied by a consolidation of the Company's share capital, effective from 18 October 2006, whereby shareholders received 34 new ordinary shares for every 41 existing ordinary shares held on 17 October 2006.

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* For those with hearing loss, a textphone is available on 0870 600 3950 for UK callers with compatible equipment.

Stockbrokers
JPMorgan Cazenove Limited
Merrill Lynch International

Auditor
Ernst & Young LLP

Investment bankers
Citigroup

Solicitors
Allen & Overy LLP

Key dates

2007 preliminary results announcement	29 November 2007
Final dividend	
Ex-dividend date	5 December 2007
Record date	7 December 2007
Payment date	4 February 2008
Annual General Meeting	31 January 2008
Interim management statement	31 January 2008
Announcement of interim results	May 2008
Interim dividend payment date	July 2008
Interim management statement	July 2008
Pre close trading update	September 2008
Announcement of 2008 preliminary results	Nov/Dec 2008

Acquired Sites

239 pub restaurant sites acquired from Whitbread PLC in July 2006

Amenity

Design, décor, furniture and facilities that contribute to the environment and atmosphere of a pub

AWT (Average weekly take)

The average sales per pub per week, calculated as total sales divided by the average number of pubs trading during the period divided by the number of weeks in the period

Brands

Outlets which trade under a common name, or their own individual names under an externally recognised group name, with a consistent design, drinks range, menu, service style and promotional programme

Business franchise

An agreement where an entrepreneur gains access to high quality pubs and a sophisticated business support infrastructure whilst the Company retains its scale purchasing and overhead advantages and shares in the trading upside through a franchise fee. The Company receives a commercial rent for the property and retains the property ownership

Capacity management

The process that seeks to ensure that a pub can service maximum volumes at peak trading times whilst maintaining customer satisfaction levels

Cash flow from operations

The cash generated from the operations of the Company generally defined as revenues less all operating expenses

CAGR

Compound Annual Growth Rate

Covers

The number of main meals sold

Cover turn

The total number of main meals sold divided by the number of main meals that could be sold in one sitting

EBITDA

Earnings before interest, tax, depreciation, amortisation and exceptional items

External costs

Costs influenced by outside factors, ie regulatory and energy costs

Formats

Outlets where to the customer's eye the business trades without any overt branding or badging but the customer offer and operating template are managed to defined standards

Gross margin

Gross profit divided by sales, expressed as a percentage

Gross profit

Sales less cost of goods sold, expressed in monetary terms (£s)

Incremental pre-tax returns

Growth in annual pre-tax operating profit expressed as a percentage of the associated capital investment. For sites which do not have 12 months post-investment trading, incremental return is estimated based on an annualisation of actual post-investment trading

IFRS

International Financial Reporting Standards

National Minimum Wage

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

Off-trade

Any retail outlet which has a licence to sell alcohol for consumption off the premises

On-trade

Any retail outlet which has a licence to sell alcohol for consumption on the premises (eg pubs, restaurants, nightclubs, clubs)

Operating profit

Earnings before interest, tax and exceptional items

Outlet employment ratio

Pub employment costs divided by total sales, expressed as a percentage

Post-tax cash return

EBITDA less tax divided by average net operating assets less revaluation reserve plus accumulated depreciation plus goodwill written off

Productivity

Sales less hourly paid wages divided by the number of hours worked

Refinancing

The repayment of an existing loan with the proceeds from a new loan

REIT

Real Estate Investment Trust

Same outlet like-for-like sales growth

The increase in sales performance of all managed pubs that were trading for the two periods being compared, expressed as a percentage

Securitisation

A means of raising finance secured on identifiable and predictable cash flows derived from a particular set of assets

Share buyback

The purchase in the open market by a listed company of its own shares

Uninvested like-for-like sales growth

The increase in sales performance of those managed pubs that have not received expansionary investment of more than £30,000 in either year being compared, expressed as a percentage

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