Governance

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Chairman's introduction to Governance

Dear fellow shareholder

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

One of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for more than 44,000 employees and maintain the highest possible standards of corporate governance. The Board continues to monitor developments in corporate governance and reporting regulations. The Strategic report on pages 2 to 35 includes the Group's strategy, progress and performance for the year.

We were delighted to welcome four new Directors on to the Board during the year. Phil Urban was appointed as Chief Executive on 27 September 2015, bringing with him industry experience and a proven track record of operational delivery, and we are confident that he will build on the progress made over the past few years.

Josh Levy joined the Board as a nominated Director of Piedmont Inc., on 13 November 2015, in place of Douglas McMahon who stepped down on the same date. Subsequently, on 29 February 2016 we were delighted to appoint Dave Coplin as an independent Non-Executive Director. Dave is an acknowledged expert on the usage of technology and provides strategic advice and guidance around the role and optimisation of technology, both inside and outside of the world of work.

Finally, we welcomed Keith Browne to our Board on 22 September 2016, as a representative of Elpida Group Limited, a significant shareholder in Mitchells & Butlers. Mr Browne is a chartered accountant and previously worked at KPMG Corporate Finance before retiring, now operating as an independent consultant.

We look forward to working with our new Directors on matters affecting the Group and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. My focus continues to be on maintaining a strong team, with a broad range of professional backgrounds and skills to drive further improvements where possible.

Following the externally facilitated review of the Board's effectiveness last year, for 2016 we carried out an internal review.

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

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team via our Investor Roadshow programme. I would like to encourage shareholders to attend our Annual General Meeting, details of which are set out in the separate Notice of AGM sent out with this Annual Report. The use of our Retail Support Centre in Birmingham as a venue for our AGM has proved to be a success (as well as a cost saving) and so we intend to use the same facility for the 2017 AGM and we look forward to welcoming you, where I hope you will take the opportunity of meeting our Executive and Non-Executive Board Directors.

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

Bob Ivell
Chairman

“One of the key roles for the Board of Directors at Mitchells & Butlers is to provide leadership for more than 44,000 employees and maintain the highest possible standards of corporate governance.”

Board of Directors

Knowledge and experience

Bob Ivell
Non-Executive Chairman

b c d

Phil Urban
Chief Executive

d e

Tim Jones
Finance Director

d e

Stewart Gilliland
Senior Independent Director

a b c

Eddie Irwin
Non-Executive Director

a b c

Josh Levy
Non-Executive Director


Ron Robson
Deputy Chairman

a b c

Colin Rutherford
Independent Non-Executive Director

a b c d

Imelda Walsh
Independent Non-Executive Director

a b c

Keith Browne
Non-Executive Director


Dave Coplin
Independent Non-Executive Director

a b c

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

Bob Ivell
Non-Executive Chairman Aged 64

Appointed to the Board in May 2011, Bob has over 30 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently Non-Executive Chairman of Carpetright plc, a Non-Executive Director of Charles Wells Limited and President of The Association of Licensed Multiple Retailers. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic plc, and a main Board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Regent Inns, Park Resorts and David Lloyd Leisure Limited, and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee and of the Market Disclosure Committee.

Phil Urban
Chief Executive Aged 53

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

Tim Jones
Finance Director Aged 53

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

Stewart Gilliland
Senior Independent Director Aged 59

Appointed as an independent Non-Executive Director in May 2013 and as Senior Independent Director in February 2015. Stewart was Chief Executive Officer of Muller Dairy (UK) Limited until 2010 and prior to that held senior management positions in InBev SA, Interbrew UK Limited and Whitbread plc. He is currently Chairman of Booker Group Plc and Curious Drinks Limited and a Non-Executive Director of C&C Group plc and Nature's Way Foods Limited.

Eddie Irwin
Non-Executive Director Aged 57

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

Josh Levy
Non-Executive Director Aged 26

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

Ron Robson
Deputy Chairman Aged 53

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

Colin Rutherford
Independent Non-Executive Director Aged 57

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

Imelda Walsh
Independent Non-Executive Director Aged 52

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

Keith Browne
Non-Executive Director Aged 47

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

Dave Coplin
Independent Non-Executive Director Aged 46

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

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

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

For the Company's latest financial information
go to: www.mbplc.com/investors

The Directors present their report and the audited financial statements for the year ended 24 September 2016. The Business review of the Company and its subsidiaries is given on pages 25 to 27 which, together with the Corporate governance statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 20 to 24 and 52 and 53, and details about financial instruments are shown in note 4.4 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on pages 18 and 19.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 2 to 35 reflects the Directors' understanding of the requirement to provide a Strategic report.

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

Areas of operation

Throughout FY 2016 the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany.

Share capital

The Company's issued ordinary share capital as at 24 September 2016 comprised a single class of ordinary shares of which 413,624,294 shares were in issue and listed on the London Stock Exchange (26 September 2015 412,520,626 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association. Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 1,584,503 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 126. Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting specifies deadlines for exercising voting rights in relation to the resolutions to be put to the Annual General Meeting.

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

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

During the year, shares with a nominal value of £94,272 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006. No securities were issued in connection with a rights issue during the year.

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

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are on page 78 in the Report on Directors' remuneration.

Dividend

An Interim Dividend of 2.5p was paid during the year (FY 2015 interim dividend nil, final dividend 5p). The Board recommends a final dividend for the year ended 24 September 2016 of 5p per share to be paid on 7 February 2017 to shareholders on the register at close of business on 2 December 2016. This makes a total dividend for the year of 7.5p per share (FY 2015 5p). As set out in the Notice of the Annual General Meeting sent to shareholders with this Annual Report, the Company will seek authority from its shareholders at that meeting to offer a scrip dividend alternative to a cash dividend. More details of that scrip dividend alternative are set out in the explanatory notes which accompany that Notice.

Interests in voting rights

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

Shareholder	Ordinary shares	% of share capital*	
Piedmont Inc.	109,970,613	26.58	Direct holding
Elpida Group Limited	95,553,211	23.10	Direct holding
Smoothfield Holding Limited	17,936,260	4.34	Direct holding
Standard Life	45,716,080	11.05	Indirect holding

* Using the total voting rights figure announced to the London Stock Exchange for 31 October 2016 of 413,660,130 shares.

Directors

Details of the Directors as at 21 November 2016 and their biographies are shown on pages 38 and 39. The Directors at 24 September 2016 and their interests in shares are shown on page 78. Phil Urban, Josh Levy, Dave Coplin and Keith Browne were appointed as Directors on 27 September 2015, 13 November 2015, 29 February 2016 and 22 September 2016 respectively. Douglas McMahon, a nominated Director of Piedmont Inc., stepped down from the Board on 13 November 2015. There were no other changes to the Board of Directors during the year nor subsequent to the year end, up to the date of this report.

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

In accordance with the Company's Articles of Association (which are in line with best practice guidance of the UK Corporate Governance Code), all the Directors will retire at the AGM. Dave Coplin and Keith Browne will offer themselves for election for the first time and all the other Directors will offer themselves for re-election.

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

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

Directors' indemnity

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

Articles of Association

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

Conflicts of interest

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

Related party transactions

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

Change of control provisions

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

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

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

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

Provisions which apply in the event of a takeover or reconstruction

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

Employment policies

The Group employed an average of 44,463 people in FY 2016 (FY 2015 44,492). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

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

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

The Group is responsive to the needs of its employees. As such, should any employee of the Group become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their environment where possible, in order to keep the employee with the Group.

Employee engagement

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

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

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

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

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

In summer 2016, the business implemented its STAR programme, a universal training needs analysis and learning resource for all retail roles. STAR is supported by coaching material that has been produced for every technical task associated with a job in hospitality, the visual training library enables our teams to access up to date and relevant information from any hand held or desk top device, and a progress report enables every member of the organisation to understand the skills and progress of our people.

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

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

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. During FY 2016, the employee benefit trust purchased 270,000 shares in the Company.

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 2017 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Funding and liquidity risk

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

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £150m of unsecured committed bank facilities. Further information regarding these arrangements is included in note 4.2 to the financial statements on page 113. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury.

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

Going concern

The financial statements which appear on pages 82 to 138 have been prepared on a going concern basis. The Directors have reviewed the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Group's financing is based on securitised debt and unsecured bank facilities and, within this context, a robust review has been undertaken of projected performance against all financial covenants. As a result of this review the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. See section 1 of the financial statements on page 95 for the Company's going concern statement, and page 24 for the Company's long-term viability statement.

Annual General Meeting

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

Auditor

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

Post-balance sheet events

There are no post-balance sheet events to report.

Disclosure of information to auditor

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

Greenhouse gas ('GHG') emissions statement

The Group generates GHG emissions throughout its estate of bars and restaurants for heating, cooling, lighting and catering, including the refrigeration and preparation of food and drink.

GHG emissions per £m turnover were reduced by 8.91% during the 2015/16 tax year in comparison to 2014/15 in response to a range of behavioural change activities and ongoing investment in increasing the energy efficiency of our buildings and equipment.

Assessment parameters	
Assessment year	2015/16 Tax Year
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during the 2015/16 tax year were included.
Scope	General classifications of greenhouse gas emissions scopes based on the GHG protocol and ISO14064-1:2006 within the context of the Group's operations are as follows: Scope 1 – direct greenhouse gas emissions from sources that are owned or controlled by the Group, e.g. fuel combustion of varying types, occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience. Scope 2 – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling. Scope 3 – indirect emissions as a consequence of the activities of the Group, but occurring from sources not owned or controlled by the Group. This assessment focuses on scope 1 and 2 emissions only (scope 3 is optional under the current regulations).
Consistency with the financial statements	Scope 1 and 2 emissions are reported for the 2015/16 and 2014/15 tax years to retain consistency with reporting of our carbon emissions under the Carbon Reduction Commitment ('CRC') Energy Efficiency Scheme. Scope 1 and 2 emissions from sites with 'landlord supplies' are not included in the CRC submission. Franchise sites are excluded as they are responsible for arranging and paying for their own energy. Alex sites in Germany are included. Emissions are based on UK average emissions multiplied by the number of Alex sites.
Exclusions	Scope 1 – Vehicle fleet emissions are excluded as they have been calculated to account for <1% total emissions which falls below the materiality threshold. Scope 1 – Fugitive emissions within refrigeration and cooling equipment are not included as detailed records are not yet held. Outside of scope – Logs are 'outside of scope' because the scope 1 impact of these fuels has been determined to be a net '0'. However, the CO_2e value of logs has been calculated to be <1% and would be excluded in any case as this falls below the materiality threshold.
Emission factor data source	All carbon emission factors used are consistent with details provided in the respective Carbon Reduction Commitment submissions.
Assessment methodology	Defra Environmental Guidelines 2013.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Intensity threshold	Emissions are stated in tonnes CO_2e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.
Target	Emissions during the 2014/15 tax year are provided for comparative purposes.

Greenhouse gas emissions source	2014/15 (tCO₂e)	2014/15 (tCO₂e/£m)	**2015/16** (tCO₂e)	**2015/16** (tCO₂e/£m)	**Change from previous year** (tCO₂e)	**Change from previous year** (tCO₂e/£m)	**% movement in tCO₂e/£m**
Scope 1	95,771	47.7	**95,474**	**45.7**	**(297)**	**(2.0)**	**(4.19%)**
Scope 2	217,461	108.3	**201,584**	**96.4**	**(15,877)**	**(11.9)**	**(10.99%)**
Statutory total (Scope 1 & 2)*	313,232	156.0	**297,058**	**142.1**	**(16,174)**	**(13.9)**	**(8.91%)**

* Statutory carbon reporting disclosures required by the Companies Act 2006.

Modern Slavery Act 2015

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

By order of the Board

Greg McMahon
Company Secretary and General Counsel
21 November 2016

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This responsibility statement was approved by the Board of Directors on 21 November 2016 and is signed on its behalf by:

Tim Jones
Finance Director
21 November 2016

Corporate governance statement

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

The Board is responsible for ensuring that the activities of the Mitchells & Butlers Group and its various businesses are conducted in compliance with the law, regulatory requirements and rules, good practices, ethically and with appropriate and proper governance and standards. This includes reviewing internal controls, ensuring that there is an appropriate balance of skills and experience represented on the Board and compliance with the 2014 UK Corporate Governance Code (the 'Code'), which is issued by the Financial Reporting Council and which is available at www.frc.org.uk, and for maintaining appropriate relations with shareholders.

The Company is reporting against the 2014 edition of the Code which was published in September 2014 and applies to reporting periods beginning on or after 1 October 2014. In 2015 we reported against the 2012 edition of the Code, and the key changes between the two Codes relate to going concern and statements relating to the Company's long-term viability, risk management and internal control, remuneration and shareholder engagement following significant votes against a resolution. The Board adopted some of the provisions in the 2014 Code earlier than required.

The latest financial information for Mitchells & Butlers and its group of companies is included in the 2016 Annual Report and Accounts (of which this corporate governance statement forms part) and which are available online at: www.mbplc.com/investors

The Board is committed to high standards of corporate governance. I am delighted to be able to report that the Board considers that the Company has complied throughout the year ended 24 September 2016 with all the provisions and best practice guidance of the Code except those in respect of Board composition and constitution of the Board Committees. This corporate governance statement addresses the small number of areas where, for reasons specific to Mitchells & Butlers, there are divergences from the Code as described below.

The Audit Committee report and Nomination Committee report which are set out on pages 54 to 57 and pages 50 and 51 respectively of the Annual Report also form part of this corporate governance statement and they should all be considered together.

Bob Ivell
Chairman

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

Compliance with the Code

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

Explanation for non-compliance with parts of the Code

During the year, there were four divergences from full compliance with the Code as set out below by reference to specific paragraphs in the Code:

B.1 (including B.1.2 Composition of the Board) and B.2.1, C.3.1 and D.2.1 Constitution of Committees
During the year, Code Provision B.1.2, which requires that at least half of the Board be made up of independent Non-Executive Directors (excluding the Chairman), was not complied with. Accordingly, this had consequential implications on the composition of the standing Board Committees. During the year, one non-independent Non-Executive Director resigned and three new Non-Executive Directors were appointed, one of whom is regarded as an independent Non-Executive Director. Additionally, an Executive Director was appointed.

While the Board does not comply fully with the requirement for at least half of its members to be independent, it recognises and values the presence of representatives of its major shareholders on the Board and welcomes the interest shown by them in the Company as a whole. The Board will continue to work closely with the representatives of its major shareholders to further the interests of the Company.

The possibility of appointing a further independent Non-Executive Director remains a matter for the Nomination Committee to review and is considered regularly. Throughout FY 2016, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the Code. The Committees are not fully compliant with the relevant provisions of paragraphs B.2.1, C.3.1 and D.2.1 of the Code in that they include the presence of representatives of major shareholders. Nevertheless, the Board values the contribution of those shareholder representatives on those Committees, does not consider this to be an impediment to good governance and looks forward to continuing to work with them on matters affecting the Group and its activities in the future.

The information required by Disclosure Guidance and Transparency Rule ('DGTR') 7.1 is set out in the Audit Committee report on pages 54 to 57. The information required by DGTR 7.2 is set out in this corporate governance statement, other than that required under DGTR 7.2.6 which is set out in the Directors' report on pages 40 to 45.

Board composition

The Board started the year with nine Directors (including Phil Urban who was appointed at the start of FY 2016). One Director resigned (Douglas McMahon) and four were appointed (Phil Urban, Josh Levy, Dave Coplin and Keith Browne), ending the year with eleven Directors. The table lists the composition of the Board during the year.

The Board

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

During FY 2016 there were 11 scheduled Board meetings. There were also four meetings of the Audit Committee, five meetings of the Remuneration Committee and two meetings of the Nomination Committee. The table shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Where a Director was unable to attend a meeting (whether of the Board or one of its Committees), they were provided with all the papers and information relating to that meeting and were able to discuss issues arising direct with the Chairman of the Board or Chair of the relevant Committee. In addition, the Board members meet more informally approximately four times a year and the Chairman and the Non-Executive Directors meet without the Executive Directors twice a year.

There are 10 Board meetings currently planned for FY 2017.

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

Attendance levels at Board and Committee meetings

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Directors who served during the year				
Bob Ivell	11 (11)	n/a	5 (5)	2 (2)
Keith Browne (appointed 22 September 2016)	1 (1)	n/a	n/a	n/a
Dave Coplin (appointed 29 February 2016)	7 (7)	2 (2)	3 (3)	1 (1)
Stewart Gilliland	11 (11)	4 (4)	5 (5)	2 (2)
Eddie Irwin	11 (11)	4 (4)	5 (5)	2 (2)
Tim Jones	11 (11)	n/a	n/a	n/a
Josh Levy (appointed 13 November 2016)	10 (10)	n/a	n/a	n/a
Douglas McMahon[1] (resigned 13 November 2015)	– (1)	n/a	n/a	n/a
Ron Robson[2]	10 (11)	3 (4)	5 (5)	1 (2)
Colin Rutherford	11 (11)	4 (4)	5 (5)	2 (2)
Phil Urban (appointed 27 September 2015)	11 (11)	n/a	n/a	n/a
Imelda Walsh	11 (11)	4 (4)	5 (5)	2 (2)

Where a Director was prevented from attending a meeting due to travel difficulties or clashes with other business commitments, in each case the Director concerned provided comments on the matters to be considered to the Chairman, another Director or the Company Secretary.

1. Mr McMahon did not attend one Board meeting during the year but Mr Robson, the other representative to the Board nominated by Piedmont Inc., did attend that meeting.
2. Mr Robson did not attend one Board, Audit Committee and Nomination Committee meeting during the year but Mr Levy, the other representative to the Board nominated by Piedmont Inc., did attend the respective meetings.

Directors

The following were Directors of the Company during the year ended 24 September 2016:

		Date appointed	Date of change of role
Directors who served during the year			
Bob Ivell	Independent Non-Executive Director[1]	09/05/11	14/07/11
	Interim Chairman[1]	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne[2]	Non-Executive Director	22/9/16	–
Dave Coplin	Independent Non-Executive Director	29/2/16	–
Stewart Gilliland	Independent Non-Executive Director	23/05/13	–
	Senior Independent Director	02/02/15	–
Eddie Irwin[2]	Non-Executive Director	21/03/12	–
Josh Levy[3]	Non-Executive Director	13/11/15	–
Tim Jones	Finance Director	18/10/10	–
Douglas McMahon[4]	Non-Executive Director	15/10/10	n/a
Ron Robson[3]	Non-Executive Director	22/01/10	–
	Deputy Chairman	14/07/11	–
Colin Rutherford	Independent Non-Executive Director	22/04/13	–
Phil Urban	Chief Executive	27/9/15	–
Imelda Walsh	Independent Non-Executive Director	22/04/13	–

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Group Limited.
3. Nominated shareholder representative of Piedmont Inc.
4. Resigned 13 November 2015.

On 27 September 2015, Phil Urban was appointed to the Board and as Chief Executive of the Company.

On 13 November 2015, Douglas McMahon stepped down from the Board and Josh Levy was appointed to the Board. Josh Levy is a nominated shareholder representative of Piedmont Inc.

On 29 February 2016, Dave Coplin was appointed as an independent Non-Executive Director.

On 22 September 2016, Keith Browne was appointed to the Board. He is a nominated shareholder representative of Elpida Group Limited.

At the start of the year, the Board was made up of eight male and one female members. At the end of the year the Board was made up of ten male and one female members.

The Executive Directors have service contracts which are summarised on page 70. The Chairman and each of the Non-Executive Directors have letters of appointment. Copies of the respective service contracts or letters of appointment of all the Board are on the Company's website. In addition, they are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before and until the end of the meeting.

All the Company's Directors are required to stand for annual re-election (or, in the case of Dave Coplin and Keith Browne, election for the first time following their appointment) at the Company's Annual General Meeting in accordance with the Company's Articles of Association. Their biographical details as at 21 November 2016 are set out on page 39, including their main commitments outside the Company.

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

Division of responsibilities between Chairman and Chief Executive

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

The division of responsibilities between the Chairman and the Chief Executive are clearly established and set out in writing and agreed by the Board. In particular, it has been agreed in writing that the Chairman shall be responsible for running the Board and shall provide advice and assistance to the Chief Executive. He also chairs the Nomination Committee, is a member of the Remuneration Committee and attends, by invitation, meetings of the Audit Committee. He also chairs the Market Disclosure Committee and the Property Committee.

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 51) and attends the Nomination, Remuneration and Audit Committee by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of both the Market Disclosure Committee and the Property Committee.

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

Chairman

The UK Corporate Governance Code provides that the Chairman should, on appointment, meet the independence criteria set out in provision B.1.1 of that Code. Bob Ivell met these independence criteria on appointment.

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

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

Chief Executive

Phil Urban was appointed Chief Executive on 27 September 2015 following the resignation on 26 September 2015 of Alistair Darby.

As indicated above, the Chief Executive has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Stewart Gilliland was appointed to the role of Senior Independent Director on 2 February 2015.

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

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

Non-Executive Directors

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

Ron Robson and Douglas McMahon were appointed to the Board as representatives of one of the Company's largest shareholders, Piedmont Inc., and were therefore not regarded as independent in accordance with the Code. Douglas McMahon stepped down from the Board on 13 November 2015, and was replaced by Josh Levy, who is also a nominated shareholder representative of Piedmont Inc.

Eddie Irwin was appointed to the Board as a representative of another of the Company's largest shareholders, Elpida Group Limited and is therefore not regarded as independent in accordance with the Code. Keith Browne was appointed as an additional representative of Elpida Group Limited on 22 September 2016 and he likewise is not regarded as independent.

There are currently four independent Non-Executive Directors on the Board: Stewart Gilliland, Colin Rutherford, Imelda Walsh and Dave Coplin.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 74, the Non-Executive Directors received no remuneration from the Company during the year.

When Non-Executive Directors are considered for appointment, the Board takes into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

Board information and training

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

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

Committees

Each Board Committee has written terms of reference approved by the Board, which are available on the Company's website. Those terms of reference are each reviewed annually by the relevant Committee to ensure they remain appropriate.

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 54 to 57 which is incorporated by reference into this statement.

Remuneration Committee

Details of the Remuneration Committee and its activities during the year are included in the Report on Directors' remuneration on pages 58 to 81.

Nomination Committee

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning for the Board and the Executive Committee and reviewing the output of the Board effectiveness review.

During the year, the Nomination Committee considered the composition of the Board, the appointment of new Non-Executive Directors and commissioned the internally-facilitated Board effectiveness review.

The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board.

Board Diversity Policy

During 2015 the Nomination Committee recommended, and the Board approved, a Board Diversity Policy. The key statement and objectives of that policy are as follows:

Statement:
The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Objectives:
- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship. All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will discuss and agree measurable objectives for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report and the UK Corporate Governance Code, provision B.2.4. These will be reviewed on an annual basis.

Progress against the policy:
The Board continues to monitor progress against this policy. In terms of Board diversity, the appointment of Imelda Walsh in 2013 makes the proportion of women on the Board 9% as at the year ended 24 September 2016. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of Mitchells & Butlers plc, can be found in the corporate social responsibility section on pages 28 to 31.

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

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

	Appointment date	Member at 24/09/16
Bob Ivell (Chair)	11/07/13	Y
Dave Coplin	29/02/16	Y
Stewart Gilliland	11/07/13	Y
Eddie Irwin	11/07/13	Y
Ron Robson	11/07/13	Y
Colin Rutherford	11/07/13	Y
Imelda Walsh	11/07/13	Y

During the year, the Company did not comply with provision B.2.1 of the Code because the Nomination Committee was not comprised of a majority of independent Non-Executive Directors. The Committee is not fully compliant in that it includes the presence of representatives of major shareholders.

Nevertheless, for the reasons already stated, the Board does not consider this to be an impediment to good governance and looks forward to continuing to work constructively with the representatives nominated by its major shareholders in relation to all the matters and issues to be addressed by the Nomination Committee (and the Board) in connection with the Company in the future.

Market Disclosure Committee

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

In the light of these new requirements, it was decided to establish a new formal standing Committee of the Board. This Committee, called the Market Disclosure Committee, is comprised of the Chairman, the Chief Executive, the Finance Director and an independent non-executive Director, currently Colin Rutherford.

Executive Committee

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

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

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

General Purposes Committee

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

Property Committee

In October 2016 the Board established a Property Committee to review property transactions which have been reviewed and recommended by the Portfolio Development Committee, without the need for submission of transactions to the full Board. The Property Committee will agree to the overall strategic direction for the management of the Group's property portfolio on a half-yearly basis and may decide that a particular transaction should be referred to the Mitchells & Butlers plc Board for consideration or approval. The Property Committee comprises Bob Ivell (Committee Chair), Phil Urban, Tim Jones, Josh Levy, Keith Browne, Colin Rutherford, Stewart Gilliland and Gary John.

Portfolio Development Committee

The executive review of property transactions and capital allocation to significant property matters such as site remodel and conversion plans and the Company's real estate strategy is carried out by the Portfolio Development Committee. This is not a formal Board Committee but is comprised of the Chief Executive, the Finance Director, the Group Property Director and the Company Secretary and General Counsel. It has delegated authority to approve certain transactions up to agreed financial limits and, above those authority levels, it makes recommendations to the Board or, from October 2016, to the Property Committee.

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Treasury Committee

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

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

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

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

Independent advice

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

Code of Ethics

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

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

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

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

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings. The Board has noted the provisions of the Modern Slavery Act in relation to supply chain management and has taken steps during FY 2016 to comply with its disclosure requirements. The Company's compliance statement in relation to the Modern Slavery Act can be viewed on the Company's website www.mbplc.com

Directors' training includes environmental, social and governance ('ESG') matters and the Company Secretary is responsible for ensuring that Directors are made aware of and receive regular training in respect of these important areas. The Chief Executive, Phil Urban, is ultimately responsible for ESG matters. The Board is responsible for the Company's internal risk management system, in respect of which more details can be found in the 'Risks and uncertainties' section of this report, and in the following section of this statement.

Internal control and risk management

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

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

- Processes, including monitoring by the Board, in respect of:
  - i. financial performance within a comprehensive financial planning, accounting and reporting framework;
  - ii. strategic plan achievement;
  - iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
  - iv. consumer insight data and actions to assess the evolution of brands and formats to ensure that they continue to be appealing and relevant to the Group's guests.
- An overall governance framework including:
  - i. clearly defined delegations of authority and reporting lines;
  - ii. a comprehensive set of policies and procedures that employees are required to follow; and
  - iii. the Group's Ethics Code, in respect of which an annual confirmation of compliance is sought from all corporate employees.

- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board, the Audit Committee and the Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which met six times during FY 2016, is chaired by the Company Secretary and General Counsel and comprises Executive Committee members and other members of senior management from a cross-section of functions. Its primary responsibilities are to:

  i. advise the Executive Committee on the Company's overall risk appetite and risk strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments;
  ii. advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the overall risk appetite and risk strategy;
  iii. promote the management of risk throughout the organisation;
  iv. review and monitor the Company's capability and processes to identify and manage risks;
  v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
  vi. where mitigation plans are inadequate, recommend improvement actions.

The Group's risks identified by the processes that are managed by the Risk Committee are described in 'Risks and uncertainties' on pages 20 to 24. More details of the work of the Risk Committee are included in the Audit Committee report on pages 54 to 57.

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

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

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

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

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The Group regularly reviews both the type and amount of external insurance that it buys with guidance from an external independent broker, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved. The Company carried out a full tender process in respect of its insurance brokerage adviser in FY 2015 and, following the appointment of a new broker, the Company has successfully developed and implemented a new insurance programme in FY 2016.

Shareholder relations

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

On a more informal basis, the Chairman, Chief Executive and the Finance Director regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders. During the year the Chairman, accompanied by the Head of Investor Relations, held one governance meeting with an institutional investor.

The AGM provides a useful interface with shareholders, many of whom are also guests in our pubs, bars and restaurants. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated.

Board effectiveness evaluation and Chairman's evaluation and appraisal

During FY 2015, the Board carried out an externally-facilitated self-evaluation review. Following this, during FY 2016, the Nomination Committee commissioned an internal self-evaluation review in which the Board continued to review the effectiveness of individual Directors. The conclusions of that review have been reported on to the Board and appropriate actions relating to adjustments and improvements to the way in which the Directors, the Board and its Committees interact have been agreed upon. None of these constitute significant changes to the pre-existing operational practices of the Board or its Committees but, rather, fall within the ambit of continuous review and evolution.

The Senior Independent Director, Stewart Gilliland, has led the process for the annual appraisal of the Chairman's performance with the independent Non-Executive Directors (without the Chairman present) and the conclusions were fed back to the Chairman.

Annual reviews of the Chairman's performance will continue to be conducted as required by the Code. Further, the Board Effectiveness Review included an assessment of the Chairman and his fulfilment of his role.

Going concern

The Directors' statement as to the status of the Company as a going concern can be found on page 43.

Introduction from the Audit Committee Chairman

I am delighted to present, on behalf of the Board, the report of its Audit Committee for the financial year ended 24 September 2016.

I continue to have the benefit of spending valuable time with those key individuals throughout the Group who collectively provide an appreciation and rigorous insight into how our Group functions and reports. These discussions are extremely valuable and I am grateful for the insight which they provide to me. I am sure this is a significant factor in the efficient running and operation of the Audit Committee's oversight role.

The Audit Committee continues to engage formally, regularly and at an appropriate level of detail with our external auditor, other third-party advisers as necessary and our Group Risk Director. This has enabled the Committee to ensure that it maintains an appropriate understanding of how our auditors and third-party advisers interact with our Group assurance and risk management function which, in turn, ensures that these key stakeholders are able to give comprehensive coverage of both the external and internal audit process, and confidence in both their respective and collective fieldwork conclusions. It is also important to note the provision of sufficient resources by the Company and its subsidiaries to ensuring any additional assurance is obtained where considered appropriate. All of these efforts provide the Committee with a detailed and clear understanding of the status of the business of the Group and of its principal components and, of equal importance, of the overall systems and processes of the Group at all levels.

The role of the Audit Committee continues to focus on challenging the effectiveness of the Group's internal controls, the robustness of our Group assurance and risk management process and in assessing the importance of, and acting as required upon, all reported information received from our auditors, third-party advisers and from our rigorous internal audit function.

The Committee is committed to maintaining an open and constructive dialogue with our shareholders on audit matters. Therefore, if you have any comments or questions on any element of the report, please email me, care of Adrian Brannan, Group Risk Director, at adrian.brannan@mbplc.com.

Colin Rutherford
Chairman of the Audit Committee

Membership and remit of the Audit Committee

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

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

At the date of the 2016 Annual Report, the Audit Committee comprises four independent Non-Executive Directors: Colin Rutherford (Chair), Imelda Walsh, Stewart Gilliland and Dave Coplin, and two further Non-Executive Directors nominated by substantial shareholders, Ron Robson and Eddie Irwin. In accordance with Code provision C.3.1 the Board considers that Colin Rutherford has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on page 39.

Following the appointment of three Independent Non-Executive Directors in April and May 2013, Committee members were appointed with effect from 11 July 2013, and revised terms of reference were established, in order to comply with Code requirements. Those terms of reference are reviewed annually and, during FY 2016, were updated to reflect the consequential changes introduced by the implementation, in July 2016, of the Market Abuse Regulation.

The Audit Committee met four times during FY 2016. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm and the internal Group Assurance function.

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

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 74.

Summary terms of reference

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

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

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

The role and responsibilities of the Audit Committee are to:

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

Key activities of the Audit Committee

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

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the auditor's half year and full year reports;
- reappointment and evaluation of the performance of the auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2016 regarding the level of achievement and the scope of the annual internal audit plan for FY 2017;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management framework for the identification and control of major risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- compliance with the Company's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures including a summary of reports received during FY 2016.

Disclosure of significant issues considered

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 90 to 129.

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

- Property, Plant and Equipment Valuation – the assumptions used by management to value the long leasehold and freehold estate including estimated fair maintainable trading levels, brand multiples and use of spot valuations to ensure a consistent valuation methodology is in place. A number of key judgements are also applied in calculating short leasehold impairment such as trading levels and the use of an appropriate discount rate; and
- Pension deficit – the pension liability is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation which have an impact on the valuation of the defined benefit pension scheme was assessed by the Audit Committee.

Effectiveness of internal audit

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

The annual internal audit plan is approved by the Audit Committee and kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the audit plan on a quarterly basis. The FY 2016 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit. A similar approach has been employed in relation to the FY 2017 internal audit plan.

The principal objectives of the internal audit plan for FY 2016 were, and remain for FY 2017:

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

During FY 2016, 16 audit reports were issued by the Group Assurance function and reviewed by the Board or the Audit Committee. Internal audit recommendations are closely monitored through to closure via a web-based recommendation tracking system, introduced in FY 2013, which has improved the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

Risk management framework

As disclosed in the 'Risk and uncertainties' section on pages 20 to 24 the Risk Committee continues to meet on a regular basis to review the key risks facing the business. The Risk Committee met on six occasions in FY 2016. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Company Secretary and General Counsel (Chairman)
- Group Finance Director
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Senior Legal Counsel

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

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

Confidential reporting

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Company's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2016 (major issues being defined for this purpose as matters having a financial impact greater than £100k).

External auditor appointment

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. The Audit Committee has considered the recent guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The Audit Committee considers that the relationship with the auditor is working well and is satisfied with its effectiveness and has not considered it necessary to require Deloitte LLP to re-tender for the external audit work. There are no contractual obligations restricting the Company's choice of auditor. Following its appointment as auditor, Deloitte LLP was replaced in respect of the provision of internal audit services by PricewaterhouseCoopers LLP.

External auditor's independence

The external auditors should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's auditor as set out in below. That policy has been reviewed in FY 2016 and a copy of it is appended to the Audit Committee's terms of reference. Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years:

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

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

- services with fees less than £50,000 may be approved by the Finance Director; and
- engagements with fees over £50,000 may be approved by the Audit Committee or its Chair.

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

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Company and the audit firm agree that there would be no impact on the impartiality of the audit firm.

External audit annual assessment

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

The Company has complied throughout the reporting year with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Fair, balanced and understandable statement

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

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

Colin Rutherford
Chairman of the Audit Committee

21 November 2016

Long-term viability statement
See page 24

Report on Directors' remuneration

Imelda Walsh
Chair of the Remuneration Committee

I am pleased to present the Directors' remuneration report in respect of the financial year which ended on 24 September 2016.

Background and business context

At the start of the 2016 financial year Phil Urban was appointed as Chief Executive. As I explained in my statement last year Phil brought to the role extensive experience and a strong track record in the industry and, having joined M&B earlier in 2015 as Chief Operating Officer, had already established good working relationships with the Board and senior management. This enabled Phil to undertake a review of the business very quickly and establish his strategic priorities. This review concluded that the best way of delivering sustainable shareholder returns was to accelerate the organic growth of the business by focusing on three key objectives:

- Building a more balanced business
- Instilling a more commercial culture
- Driving an innovation agenda.

Good progress has been made during the year against these objectives. We have carried out a full review of the estate, and as a result have identified a number of opportunities; in some cases to convert into more optimal brands, and in others to develop the existing brand and guest offer through remodel investment. For example, this approach has seen us increase the number of Miller & Carter businesses through successful acquisitions and conversions, and we have also evolved our Pizza & Carvery offer into Stonehouse, a new brand in its own right. Overall, we have significantly increased the number of remodels and conversions, improving amenity level across the estate, which reflects the level of capital being invested in the guest-facing areas of our businesses. A number of other work streams were established to support the second and third priorities, aimed at taking a structured approach to delivering a wide range of operational and other improvements. The main areas of focus for these work streams, which will continue into FY 2017, were digital and technology, new market opportunities, including home delivery, and better operational effectiveness.

Trading over the first half of the year was disappointing with sales declining by 1.6%, however performance improved over the second half as the initiatives described above began to take effect, with sales improving on a like-for-like basis by 0.2%. We ended the year with total sales falling by 0.7% and like-for-like sales of minus 0.8%. Operating Profit fell by 3% to £318m which was linked to the decline in total sales and was also a result of wage inflation, primarily driven by the introduction of the National Living Wage ('NLW') in April 2016. The higher levels of investment increased the number of weeks that businesses were closed for development or refurbishment.

2016 remuneration

The 2016 annual bonus plan had two elements, Adjusted Operating Profit (Operating Profit[1]) and Guest Service. Reported Operating Profit of £318m was short of the threshold level set by the Committee and therefore no bonus under this element was payable.

The primary measure of Guest Service was Net Promoter Score (NPS), which used a guest survey to measure satisfaction. At the time the Committee set the targets, the Company was reviewing both the survey provider and the method by which data was collected. Therefore, the Committee decided that additional guest metrics would be reviewed alongside the NPS score to ensure that any final assessment of guest service improvement was robust. The Guest Service measure was also subject to Operating Profit achieving a threshold level of performance. Under the old survey basis, the NPS score achieved was 67.1%, which would, potentially, have triggered the maximum pay-out under this element. However, as described above, the Committee would still have taken into account other metrics such as guest complaint resolution and data from TripAdvisor. In the view of the Committee this would have led to a probable reduction in the percentage due under this element. However, as the threshold level of Operating Profit had not been achieved, no award under this bonus element was made.

The 2014-2016 Performance Restricted Share Plan ('PRSP') performance condition also had two elements, growth in adjusted earnings per share ('EPS'[1]) and total shareholder return ('TSR'), each element weighted equally. Over the performance period EPS growth was 2.7% p.a., below the threshold level of performance required for vesting. TSR performance was also below the median threshold required for vesting. As a result, awards under both elements lapsed.

In June 2016 an award was made under the terms of the PRSP in respect of the 2016-2018 performance period, details of which are set out on pages 75 and 76. In my statement last year, I outlined the Committee's intention to delay the granting of this award. A new CEO had just been appointed and Phil had initiated a review of all aspects of the business. The Committee wanted the new strategic priorities, once presented to and agreed by the Board, to be considered by the Committee before agreeing the design and targets for the FY 2016 PRSP award. Following a period of consultation with major shareholders and investor groups, the Committee agreed to retain the existing plan structure, and therefore two performance conditions, growth in adjusted EPS and relative TSR apply. The EPS target range has a threshold level of performance set at 4% growth p.a. and maximum set at 8% growth p.a. The Committee believed that this represented a demanding range in the context of the earnings forecast at the time of the award, given the significant cost challenges the business faced. These included the introduction of the National Living Wage in April 2016. At the time of setting the targets, a 4% to 8% p.a. growth range was broadly equivalent to 9.5% to 13% p.a. growth if the expected impact of the National Living Wage was excluded.

1. Adjusted earnings per share and adjusted operating profit included in the report on Directors' remuneration, are quoted before separately disclosed items as set out in note 2.2.

Approach for 2017

No changes to the remuneration policy are sought this year, but I would like to draw attention to the following points:

Annual Bonus

- The annual bonus plan will continue to be based 75% on Operating Profit and 25% on Guest Service.
- The Committee will continue to set demanding targets for both Operating Profit and Guest Service. The threshold at which a bonus will begin to accrue will be set at 95% of target, slightly lower than in 2016, reflecting the demanding nature of the target set by the Committee. Maximum payment for the Operating Profit element will be for achievement of 105% of target, increased from 103% in 2016. The amounts payable at threshold, target and maximum remain unchanged from 2016.
- The Committee felt that a slightly wider performance range was appropriate given the ongoing economic uncertainty and continuing cost pressures, including the additional costs associated with the accelerated investment in our estate, which increases the number of closure weeks due to site redevelopment. Whilst these closures have a short-term impact, in the medium term good returns are anticipated. There is also an expectation that the other work streams referred to above will begin to positively impact sales, and there may be some further benefit as we see higher wages from the introduction of the NLW flowing through to the wider economy.
- NPS will continue to be the lead measure of Guest Service. The targets are now based on the new survey, which the Committee believes has a more robust method of collecting data and therefore result validity. Guests are being invited to provide feedback in different ways, either directly by a member of the team or by email or text invitation following their visit. Again, the Guest Service element will only be payable if the threshold level of financial performance is achieved. For 2017 this has been set at 95% of target in line with the threshold level set for Operating Profit.
- The Committee has also agreed that prior to any bonus being approved in relation to Guest Service, progress against other guest metrics will be considered, such as TripAdvisor reviews and the speed at which guest complaints are addressed. This rounded assessment will ensure that guest service improvements are assessed comprehensively and not solely based on a single metric.
- More broadly, the Committee is committed to ensuring that any bonus or incentive payment is consistent and representative of the overall performance of the Company.

Performance Restricted Share Plan (PRSP)

- A PRSP award is due to be made in respect of the 2017 to 2019 performance period. The Committee has reviewed the terms of the award and concluded that the performance measures should remain unchanged from the June 2016 award, with two equal elements, growth in adjusted EPS ('EPS'[1]) and relative TSR. The Committee has also concluded that the EPS target range should remain unchanged, with the threshold set at 4% growth p.a. and maximum vesting at 8% growth p.a.
- In setting the EPS target range, the Committee has considered the impact on earnings resulting from the ongoing work to reposition the estate, and the impact of the NLW. In addition, the past 6 months has seen further cost headwinds emerge, for example the impact of weaker sterling on input costs, the Apprenticeship Levy and increases to utility, rent and business rates. In light of this, the Committee believes the EPS range remains very challenging in the circumstances.
- To further understanding, the Committee has decided to include an update on performance for all outstanding PRSP awards. At the present time, our assessment is for nil vesting for the 2015-2017 and nil to threshold vesting for 2016-2018 PRSP awards. Further information can be found on page 75.

Salary

No salary increase will apply for any Executive Director. Phil Urban's salary will remain at £510,000 and Tim Jones' as £426,500. Salaries will next be reviewed as part of the upcoming Remuneration Policy review.

Remuneration Policy Review

As our Remuneration Policy was approved at the 2015 AGM we will, over the coming year, undertake a review of our policy prior to submitting a new Remuneration Policy for consideration and approval at the 2018 AGM. This review will take into account all relevant factors, including the implementation of the business strategy and other external impacts. It is not possible at this stage to determine if any changes to the current policy will be necessary, but should this be the case then, as ever, the Committee is committed to maintaining an open and constructive dialogue with shareholders on remuneration matters.

The Committee and I are particularly cognisant of emerging practice and guidance in relation to executive pay and the potential for further evolution over the coming months. One area of particular focus is the relationship between CEO pay and that of the wider workforce, and with this in mind the Committee has decided to include the pay ratio of the CEO's total pay versus median pay of other employees in this year's report, details of which can be found on page 80. We have provided this additional disclosure but look forward to greater debate and clarification over the method of calculation and how this additional information will inform discussion on executive remuneration.

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

Imelda Walsh
Chair of the Remuneration Committee
21 November 2016

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

At a glance

This section briefly summarises the principles that underpin our remuneration policy, highlights performance and remuneration outcomes for FY 2016, and our approach for FY 2017. More detail can be found in the annual report on remuneration on pages 72 to 81.

Remuneration principles

Shareholder alignment

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

Competitive

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

Performance-linked

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

Straightforward

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

FY 2016 annual bonus

The annual bonus was based on two elements: 75% on Operating Profit and 25% on Guest Service as measured by our NPS.

	Target	Actual	Result
Operating Profit	£335m	£318m	Nil bonus due
NPS	66%	67.1%	Nil bonus due*

* While the NPS target was achieved, no bonus was payable as the threshold level of financial performance had not been achieved, this being £328m Operating Profit in respect of FY 2016.

No bonus awards have been made to Executive Directors in respect of FY 2016 performance.

FY 2016 PRSP vesting

The PRSP awards granted in 2013 had a performance period ending on 24 September 2016. 50% of the award was based on relative TSR performance and 50% on EPS[1] growth.

	Target	Actual	% vesting
Total Shareholder Return relative to peer group	Median – median x 1.35	Below median	Nil
Compound annual adjusted EPS growth	8% – 16% CAGR	2.7% p.a.	Nil

TSR performance was below median and EPS growth of 2.7% p.a. over the period was below the threshold, therefore no part of the award vests.

FY 2016 single figure remuneration for Executive Directors

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension related benefits £000	Long-term incentives £000	Total remuneration £000
	2016	**2016**	**2016**	**2016**	**2016**	**2016**
Phil Urban	509	15	–	89	–	**613**
Tim Jones	425	15	–	75	–	**515**
Total	**934**	**30**	**–**	**164**	**–**	**1,128**

Approach for FY 2017

Salary	No increases to salary will apply for Executive Directors.
Benefits and pension	No change proposed. A pension contribution (or cash equivalent) of 20% of salary, will continue to apply.
Annual bonus	No change to potential quantum – 100% of salary. 75% will be based on Operating Profit and 25% on Guest Service. Half of any bonus payable will be deferred in shares and released in equal parts after 12 and 24 months.
PRSP	Award levels remain unchanged, 200% of salary for the Chief Executive and 140% of salary for the Finance Director. No change to the performance condition proposed, which will continue to have two equally weighed elements, adjusted EPS growth and relative TSR. Threshold vesting under the EPS element will be 4% growth p.a. and maximum vesting is achieved at 8% growth p.a. Under the TSR element threshold vesting is achieved for TSR performance equivalent to the median of the comparator group and maximum vesting is achieved for upper quartile performance.

Policy report

This section of the report sets out the Company's remuneration policy as approved at the 2015 AGM and the performance scenario charts have been updated to reflect the salaries effective from 1 January 2017 and the value of benefits paid in FY 2016.

The Committee is constituted in accordance with the recommendations of the UK Corporate Governance Code (the 'Code'). The full terms of reference of the Committee are available on our website: www.mbplc.com/investors/businessconduct/boardcommittees and on request. The Committee's responsibilities include:

- making recommendations to the Board on the Company's remuneration policy for Executive Directors and senior Executives giving full consideration to the Code and setting the remuneration for Executive Directors and the Chairman, including pension rights and compensation payments;
- taking account of all factors necessary when determining the policy, the objective of which shall be to ensure remuneration policy promotes the long-term success of the Company without paying more than is necessary; and
- aligning Executive Directors' interests with those of shareholders by providing the potential to earn significant rewards where significant shareholder value has been delivered.

The Committee is mindful of a broad range of stakeholders in the business and accordingly takes account of a range of factors when setting remuneration policy including market conditions, pay and benefits in relevant comparator organisations, terms and conditions of employment across the Group, the Company's risk appetite and shareholder feedback.

The Committee considers a broad range of internal and external information in determining policy; this includes a review of external benchmarking information when reviewing Executive Directors' base pay and as required on appointment of a new Executive Director or Executive Committee member. While market data is provided to the Committee by its independently appointed advisers, such data provides the context for setting pay levels and the Committee does not consider it in isolation.

The remuneration policy for Executive Directors set out over the following pages supports the business needs of the Company, ensuring it promotes the long-term success of the business whilst enabling the Company to attract, retain and motivate senior Executives of a high calibre. The Committee is satisfied that the remuneration policy supports the Company's business strategy of growing long-term shareholder value and appropriately balances fixed and variable remuneration. With a high proportion of reward delivered in the form of equity, this ensures that Executives have strong alignment with shareholders through the Company's share price.

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

Policy table

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

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Base salary				
Provides a sound basis on which to attract and retain Executives of appropriate calibre to deliver the strategic objectives of the Group. To reflect the market value of the role, personal contribution, experience and competence.	Salaries are normally subject to annual review. Salary levels may be influenced by: • role, experience or performance; • Group profitability and prevailing market conditions; and • periodic external benchmarking of similar roles at comparable companies by size and sector. Any increase is normally effective from 1 January. Payable in cash, four-weekly throughout the year. Pensionable.	Normally set broadly around mid-market levels with increases in line with that of the Company's UK workforce. Percentage increases beyond those granted to the wider workforce may be awarded in certain circumstances such as when there is a change in the individual's role or responsibility or where there has been a fundamental change in the scale or nature of the Company. In addition, a higher increase may be made where an individual had been appointed to a new role at below market salary while gaining experience. Subsequent demonstration of strong performance may result in a salary increase that is higher than for the wider workforce. There may also be circumstances where the Committee agrees to pay above mid-market levels to secure or retain an individual who is considered, in the judgement of the Committee, to possess significant and relevant experience which is required to enable the delivery of the Company's strategy.	Executive Directors' performance is a factor considered when determining salaries. Performance is reviewed in line with the established performance review process in place across the Group.	No recovery or withholding applies.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Annual Performance Bonus (cash and shares)				
Provides a direct link between the achievement of annual business performance targets and reward. Deferred bonus, awarded in shares, provides a retention element and additional alignment of interests to shareholders.	Bonus payment level is determined by the Committee by reference to performance against the targets set by the Committee prior to the commencement of the performance year. The cash element of the bonus is normally payable in December following the end of the financial year. Up to half of any bonus award is payable in cash. At least half of any bonus award is deferred as shares under the terms of the STDIP below. Key terms of the STDIP are: • deferred bonus share awards are normally released in two equal amounts 12 and 24 months after deferral; and • at the discretion of the Committee dividends paid between grant and vesting may accrue on vested shares. Non-pensionable.	Currently, the normal maximum payment is 100% of base salary. At the discretion of the Committee, the maximum earnings potential may be increased in line with the plan rules up to 150% of base salary.	At least 75% of bonus will be based on financial measures. This may be a single measure or a mix of metrics as determined by the Committee. No more than 25% will be based on non-financial measures or personal business objectives. Payment of non-financial measures may be subject to a financial performance threshold. Up to 50% of bonus may be earned for achieving a demanding target with full payout for achieving a second, more demanding target. The nature of the performance measure(s) and the targets are reviewed in advance of each new award. The Committee has the discretion to vary the mix of measures or to introduce new measures to reflect business need. As the bonus is subject to performance conditions, any deferred bonus is not subject to further conditions. The Committee may alter the bonus outcome if it considers that the payout is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that payouts reflect overall Company performance during the period. The Committee will consult with leading investors before any exercise of its discretion to increase the bonus outcome.	Clawback and malus will apply to the cash bonus and deferred shares where there has been a misstatement of the accounts, or other data, or a serious misdemeanour or serious misconduct by the participant has occurred prior to payment or vesting or within two years of payment or vesting of shares.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Performance Restricted Share Plan ('PRSP')				
To incentivise delivery of sustained growth through superior long-term performance, provide an element of retention and increase alignment with shareholders.	Discretionary annual award of nominal cost options. Vested options are exercisable immediately following confirmation of performance. At the discretion of the Committee vested options attract Dividend Accrued Shares between award and vesting. Under the rules of the PRSP, conditional share awards may also be granted although there is currently no plan to grant such awards. Non-pensionable.	The normal maximum annual award of nominal cost options is 200% of base salary. The maximum award may be increased in line with the plan rules to 250% of base salary. Any increase to the normal maximum award of 200% of base salary, other than in exceptional circumstances such as recruitment, would also be subject to prior consultation with leading investors.	Performance condition is measured over three financial years. The current performance condition includes EPS growth and total shareholder return (TSR) relative to a peer group of comparator companies. For each element, 25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance. Straight-line vesting applies between threshold and maximum. The Committee has the flexibility to vary the mix of measures or to introduce new measures. The Committee will consult with leading investors before implementing any change. The Committee may alter the vesting outcome if it considers that the level of vesting is inconsistent with the Company's overall performance taking account of any factors it considers relevant. This will help ensure that vesting reflects overall Company performance during the period. The Committee will consult with leading investors before any exercise of its discretion to increase the vesting outcome.	Clawback and malus applies on the same basis as the annual bonus.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
All-Employee Share Plans				
To underpin the employee engagement strategy and encourage employees to have a financial stake in the future of the Company.	All eligible employees, including the Executive Directors, can participate in the HM Revenue & Customs ('HMRC') approved Sharesave and SIP. **Sharesave**: all eligible employees can save over a three or five year maturity period. Proceeds from the savings contract may be used to acquire shares in the Company at an option price fixed at the date of invitation. **SIP**: all eligible employees are invited to participate. A Free Share award is made annually. **Free shares** are typically held in trust for at least three years. In addition, eligible employees may purchase, from their gross pay, Partnership Shares. **Partnership Shares** are held in trust and can be released at any time. Income tax and National Insurance Contributions are normally payable on the value of shares released within five years of purchase. The Committee has discretion under the SIP rules to operate **Matching Share** and **Dividend Share** elements, although there is currently no plan to do so.	**Sharesave**: Maximum savings up to HMRC limits (currently £500 per month) over a three or five year maturity period. **SIP**: Maximum Free Share award up to HMRC limit (currently £3,600 per tax year). Partnership Shares up to HMRC limit (currently with an initial value of up to £1,800 per tax year).	**Sharesave**: No performance metrics apply. **SIP**: No performance metrics apply.	**Sharesave**: No recovery or withholding applies. **SIP**: No recovery or withholding applies.
Pension (or cash allowance)				
To provide a market-aligned retirement benefit.	Payment into a Company pension, personal individual pension and/or a cash allowance in lieu of Company pension contributions once statutory limits (Fixed Protection and Annual Allowance) are reached, or a combination of both.	The Company contribution is a maximum of 20% of base salary.	No performance metrics apply.	No recovery or withholding applies.

Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Other benefits				
To provide market-aligned benefits.	Benefits include (but are not limited to) private healthcare, life assurance, annual health check, employee assistance programme, use of a Company vehicle or cash equivalent, and discounts on food and associated drinks purchased in our businesses. Private healthcare is provided for the Executive, spouse or partner and dependent children. Discount vouchers are provided on the same basis to all employees and can be redeemed in any of our managed businesses provided the purchase is a personal, not a business, expense. Relocation or the temporary provision of accommodation may be offered where the Company requires a Director to relocate. Expatriate allowances may be offered where required. Travel and, if relevant, related expenses such as accommodation may be reimbursed on a gross of tax basis. Executive Directors may become eligible for any new benefits introduced to a wider set of other Group employees.	In line with market practice, the value of benefits may vary from year to year depending on the cost to the Company from third-party suppliers.	No performance metrics apply.	No recovery or withholding applies other than if relocation costs were provided. A proportion of any relocation costs may be recovered where a Director leaves the employment of the Group within two years of appointment or date of relocation.
Shareholding policy				
To align the interests of the Executive Directors with shareholders and promote a long-term approach to risk management.	The Chief Executive is required to hold Mitchells & Butlers' shares to the value of a minimum of 150% of base salary. Other Executive Directors are required to hold Mitchells & Butlers' shares to the value of a minimum of 100% of base salary. Except for those sold to cover the acquisition cost together with the associated income tax and National Insurance contributions, Executive Directors will normally be required to retain shares arising from share schemes until the minimum level of ownership required has been achieved. It is expected that the guideline will normally be achieved within five years of appointment to the Board. Only shares owned outright by the Executive Director or a connected person are included. Shares or share options which are subject to a performance condition are not included. Deferred shares and options which are vested but unexercised are also not included. The value of the Shareholding will be the number of shares owned multiplied by the average share price over the previous three months up to the date of valuation.	n/a	n/a	n/a

Notes to the policy table

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

Table 1

Element	Notes
Annual Performance Bonus	The main emphasis of the annual plan is to reward management for the achievement of financial targets such as profit growth, which is a key indicator of the Company's performance. Non-financial measures are intended to measure whether management are delivering against key lead performance indicators. Targets are determined annually by the Committee. All salaried employees participate in a bonus scheme. Save for certain operational and operational support roles where some, or all, of the annual bonus relates directly to the performance of the business or area for which the participant is responsible, a common annual bonus target applies across all participating employees. Retail staff do not participate in any bonus scheme.
PRSP	Senior employees, including Executive Directors and members of the Executive Committee, participate in the PRSP. No long-term incentive plans apply for any other employees. Measures for Executive Directors include: EPS growth which is a measure of overall profitability of the business for investors over the long term and therefore is a fundamental element of aligning shareholders' interests with those of executives. Relative TSR performance which provides a measure of long-term success of the Company relative to an appropriate group of peer comparators.

Table 2

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

* As defined by legislation.

Legacy arrangements

For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with current or former Directors before the current legislation on remuneration policies came into force or before an individual became a Director (such as the payment outstanding on incentive awards) even where it is not consistent with the policy prevailing at the time such commitment is fulfilled.

Incentive plan discretions

The Committee will operate the incentive plans described in the policy table according to their respective rules, the policy set out above and in accordance with the Listing Rules, applicable legislation and HMRC guidance where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include (but are not limited to) the following:

- who participates in the plans;
- the timing of grant of award and/or payment;
- the size of award and/or payment, subject to policy limits;
- the choice of (and adjustment of) performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan;
- discretion relating to the measurement of performance in the event of a change of control or reconstruction;
- determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules; and
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, on a change of control and special dividends).

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

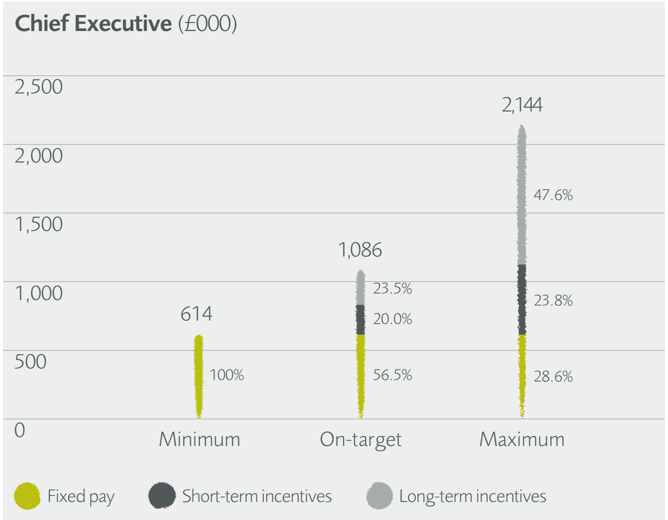
Chairman and Non-Executive Director fees

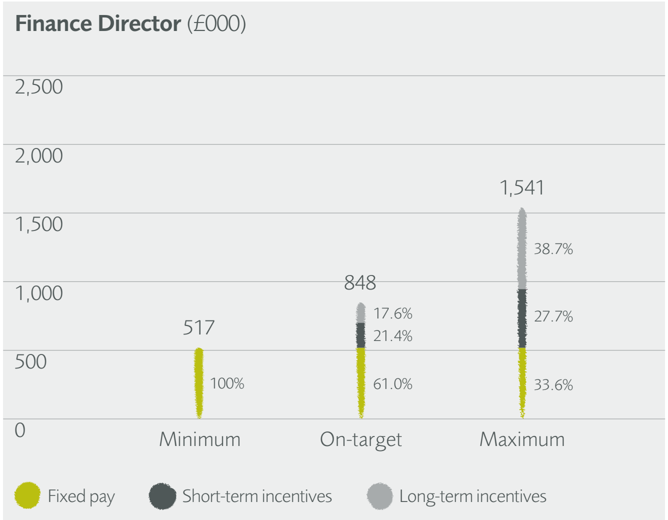
Purpose and link to strategy	Operation	Opportunity	Performance metrics	Recovery or withholding
Fees				
To attract and retain Non-Executive Directors of appropriate calibre and experience.	Payable in cash, four-weekly throughout the year. Fees are normally reviewed annually with any increase usually taking effect from 1 January each year. The Chairman's fee is reviewed annually by the Committee (without the Chairman present). Remuneration policy for the Non-Executive Directors is determined by the Company Chairman and Executive Directors by reference to companies of similar size and sector as well as time commitment and responsibilities. Non-Executive Directors receive a base fee and an additional fee for chairing a committee. Travel, accommodation and other related expenses incurred in carrying out the role will be paid by the Company including, if relevant, any gross-up for tax.	Where a Non-Executive Director undertakes additional responsibilities, other than the chairing of a committee, additional fees may be set, e.g. for a Senior Independent Director.	No performance metrics apply.	No recovery or withholding applies.

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

Illustrations of application of remuneration policy

A key principle of the Group's remuneration policy is that variable short- and long-term reward should be linked to the financial performance of the Group. The charts below show the composition of the new CEO's and the Finance Director's remuneration at minimum, on-target and maximum levels of performance in FY 2017.





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

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2017. Benefits are based on actual FY 2016 figures and include company car, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable in respect of base salary from 1 January 2017.

On-target

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

- 42.5% of base salary is payable under the short-term incentive plan; and
- 25% of the award (50% of base salary for the Chief Executive and 35% of base salary for the Finance Director) is payable under the long-term incentive plan.

Maximum

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

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

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

	Fixed (£000)				Short-term plan (£000)		Long-term plan (£000)	
	Base pay	Benefits	Pension	Total fixed	On-target	Maximum	On-target	Maximum
Chief Executive	510	15	89	614	217	510	255	1,020
Finance Director	426.5	15	75	516.5	181.3	426.5	149.3	597.1

Note: The value received under the short-term plan is the gross value of awards before 50% is deferred into shares. The values received under the short-term plan and long-term incentive plan do not take into account dividend accrued shares that are payable on the vesting of awards nor any changes in share price.

Service contracts

Executive Directors' contracts

The table below summarises key elements of the service contracts applicable to Executive Directors:

Notice period	• Executive Directors are employed under service contracts that may be terminated by the Company at any time on one year's notice. • Any payment made in lieu of notice would comprise base salary only[a] and may be payable in instalments in line with the established salary payment dates until the expiry of the notice period or, if earlier, the date on which alternative employment or other engagement is secured with the same or higher base salary. If employment is secured at a lower rate of base salary, subsequent instalments of the payment in lieu of notice shall be reduced by the value of alternative income. • Service contracts contain a provision enabling the Company to put the Executive Director on garden leave after notice to terminate the service contract has been given by either party. During this period, the Executive will be entitled to base salary only.
Termination	• If an Executive Director's employment with the Group ends during the financial year, normally any entitlement to bonus for that year is forfeited. However, if the individual leaves by reason of ill-health, injury, disability, retirement, redundancy, death or sale of his employing business or company or if the Committee so decides in any other case, at the Committee's discretion the Executive Director may receive a bonus pro-rated to time employed in the year or to such later date as the Committee may decide. The Committee may decide, at its discretion, to pay the bonus all in cash. • If an Executive Director ceases employment following the end of the financial year but before payment of the bonus in respect of that year, there is no entitlement to a bonus but the Committee may, at its discretion, pay a bonus for that year. Any such bonus, at the Committee's discretion, may be all in cash. • If an Executive Director ceases employment prior to the release of Bonus Award Shares under the STDIP for the same specified good leaver reasons as set out above, the Committee, at its discretion, may release the Bonus Award Shares (and associated Dividend Accrued Shares) at the date of termination. Otherwise, the shares will be released on the normal release date. If the Director leaves for any other reason, his entitlement to Bonus Award Shares (and associated Dividend Accrued Shares) is forfeited, unless the Committee decides otherwise. • If an Executive Director dies before an Award under the PRSP has vested, vesting of the award (and associated Dividend Accrued Shares) will occur as soon as practicable based on performance and on a time pro-rated basis. • If the Executive Director ceases employment for the same defined good leaver reasons as are specified above, the Award (and associated Dividend Accrued Shares) will vest following the end of the normal performance period and on a time pro-rated basis. If employment ceases for any other reason, the Award will normally lapse, unless the Committee decides otherwise (except that if employment ceases by reason of gross misconduct the Award (and associated Dividend Accrued Shares) must lapse). • The Committee has no discretion in relation to shares or options held under the all-employee share plans (SIP and Sharesave); on termination these will vest, become exercisable or lapse in accordance with the legislation governing tax favoured plans.

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

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

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

Details of the service contracts of Executive Directors are set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Phil Urban[a]	27/9/15	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Phil Urban became Chief Executive and joined the Board on 27 September 2015. Phil's continuous service date started on 5 January 2015, the date on which he joined the Company as Chief Operating Officer.

Executive Directors may accept one external Non-Executive appointment with the Company's prior approval, as long as this is not likely to lead to conflicts of interest. Fees received may be retained by the Executive Director. During the year Tim Jones acted as an independent Non-Executive Director and Chairman of the Audit and Risk Committee of Poundland Group plc. Tim stepped down from the Board of Poundland Group Plc on 16 September 2016, following the acquisition of Poundland Group Plc by Steinhoff Europe AG. No other Non-Executive appointments applied in the year to 24 September 2016.

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles, all Directors, including Non-Executive Directors, will stand for re-election at the 2017 AGM. This is also in line with the recommendations set out in paragraph B.7.1 of the Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination. The dates of appointment of the Non-Executive Directors to the Committee are set out on page 72.

Ron Robson and Josh Levy were appointed to the Board pursuant to the terms of the Piedmont Deed of Appointment, information on which is set out on page 41.

Copies of both the individual letters of appointment for Non-Executive Directors, and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2017 AGM.

Recruitment of Executive Directors

Where it is necessary to appoint a replacement or additional Executive Director, the Committee will set a base salary appropriate to the experience and responsibilities of the new appointee and in line with our policy set out on page 62.

The maximum level of variable pay is 400% of base salary (150% in relation to annual cash bonus/STDIP and 250% in relation to the PRSP).

Depending on the timing and responsibilities of the appointment it may be necessary to set different annual bonus/STDIP performance measures and targets as applicable to other Executive Directors.

Benefits (including pension, Company vehicle or cash allowance, healthcare, life assurance, health check and, where applicable, relocation assistance) would be consistent with the principles of the policy as set out on pages 65 and 66.

For an internal appointment, his or her existing pension arrangements may continue to operate (which may include participation as an employee deferred member in the defined benefit plan, which is closed to future accrual) and any existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.

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

Recruitment of Non-Executive Directors

Chairman

The Committee will recommend to the Board a fee appropriate to the experience and responsibilities of the new appointee.

Other Non-Executive Directors

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

Consideration of employment conditions elsewhere in the Group

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees. Where significant changes are proposed to employment conditions elsewhere in the Group these are highlighted for the attention of the Committee at an early stage. The Committee is informed of the base pay review budget applicable to other employees and is cognisant of changes to the National Living Wage and the National Minimum Wage when considering the pay of Executive Directors. Retail staff pay rates have increased twice in the past 12 months, with an average increase in pay of 6.1% applying for those aged over 25 and all chefs and all supervisory staff in April 2016. In October 2016 all other retail staff pay rates that did not increase in April were increased by an average of 4%.

Employees are not specifically consulted on Executive remuneration. All employees are, however, invited to take part in our annual Your Say employee engagement survey in which they have an opportunity to provide anonymous feedback on a wide range of topics of interest or concern to them. The results of the survey are reviewed by the Board; any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration policy. In addition, each year an employee forum is held, which gives the opportunity for employees to ask questions of senior management, via elected representatives. This year the forum was hosted by the Chief Executive and attended by members of the Executive Committee. The Remuneration Chair will discuss with the Company the benefit of the Chair attending the forum on an annual basis to answer questions raised by employee representatives concerning Executive pay.

Consideration of shareholder views

This policy was set following consultation with major shareholders and investor groups in 2014.

During the year major shareholders and representative bodies were consulted in relation to PRSP targets for the 2016-18 performance period. The Committee welcomed the feedback received and took this into account before agreeing the performance targets.

Major shareholders and their representative bodies will continue to be consulted where material changes to the Executive Directors' remuneration policy are being considered.

Annual report on remuneration

This section details the remuneration of the Executive and Non-Executive Directors (including the Chairman) for the financial year ended 24 September 2016. This report and the Chair's annual statement will be subject to a single advisory vote at the AGM on 24 January 2017.

Committee membership and operation

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

Name	Date of appointment	Name	Date of appointment
Imelda Walsh (Chair)*	11 July 2013	Bob Ivell	11 July 2013
Colin Rutherford*	11 July 2013	Ron Robson	11 July 2013
Stewart Gilliland*	11 July 2013	Eddie Irwin	11 July 2013
Dave Coplin*	29 Feb 2016		

* Independent Non-Executive Directors.

Committee activity during the year

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

October 2015

- 2016 Bonus arrangements

November 2015

- Confirmation of 2013-15 PRSP Vesting
- 2016 Bonus targets
- Update on Directors' shareholdings
- Review of Directors' expenses
- Release of the second tranche of the 2013 deferred bonus award

March 2016

- 2016-18 PRSP, options for plan structure
- National Living Wage implementation
- 2016 Annual Bonus update

April 2016

- 2016-18 PRSP target setting and investor consultation

September 2016

- 2016 Bonus projection
- Employment conditions in the Group (employee engagement results and impact of NLW)
- Update on governance developments

Advice to the Committee

During the year, the Committee continued to receive advice from New Bridge Street ('NBS'), a trading name of Aon Plc. NBS were appointed following a competitive tender in 2014. Total fees payable in respect of remuneration advice in the reporting year totalled £76,355[1]. Neither NBS nor Aon Plc provide any other services to the Group.

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

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

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

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

1. Fees are shown net of VAT. 20% VAT was paid on the advisers' fees shown above.

Statement of voting at AGM

At the last AGM, the resolutions on the Annual Report on Remuneration received the following votes from shareholders:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Annual Report on Remuneration	351,084,874	349,870,201	99.65	1,214,673	0.35	2,683,462

a. The 'For' vote includes those giving the Company Chairman discretion.
b. A vote withheld is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' the resolution.

Votes 'For' and 'Against' are expressed as a percentage of votes cast.

Pay outcomes

The tables and related disclosures set out on pages 74 to 78 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte LLP.

Directors' remuneration

The tables set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year. Details of performance under the annual bonus plan are set out on pages 74 and 75.

Executive Directors

	Basic salaries £000		Taxable benefits[a] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives[c] £000		Loss of office £000		Total remuneration £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Phil Urban[d]	**509**	–	**15**	–	**–**	–	**89**	–	**–**	–	**–**	–	**613**	–
Tim Jones[d]	**425**	424	**15**	17	**–**	–	**75**	75	**–**	104	**–**	–	**515**	620
Alistair Darby[e]	**–**	540	**–**	18	**–**	–	**–**	95	**–**	189	**542**	–	**542**	842
Sub-total Executive Directors	**934**	964	**30**	35	**–**	–	**164**	170	**–**	293	**542**	–	**1,670**	1,462

Non-Executive Directors

	Fees £000		Taxable benefits[f] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives £000		Loss of office £000		Total remuneration £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Bob Ivell	**284**	282	**6**	5	**–**	–	**–**	–	**–**	–	**–**	–	**290**	287
Ron Robson	**52**	51	**1**	4	**–**	–	**–**	–	**–**	–	**–**	–	**53**	55
Stewart Gilliland	**62**	58	**1**	2	**–**	–	**–**	–	**–**	–	**–**	–	**63**	60
Eddie Irwin	**52**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**52**	51
Douglas McMahon[g]	**7**	51	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**7**	51
Colin Rutherford	**62**	61	**1**	1	**–**	–	**–**	–	**–**	–	**–**	–	**63**	62
Imelda Walsh	**62**	61	**–**	1.5	**–**	–	**–**	–	**–**	–	**–**	–	**62**	62.5
Josh Levy[h]	**45**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	–
Dave Coplin[i]	**30**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**30**	–
Keith Browne[j]	**0**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**0**	–
Sub-total Non-Executive Directors	**656**	615	**9**	13.5	**–**	–	**–**	–	**–**	–	**–**	–	**665**	628.5
Total Executive Directors and Non-Executive Directors	**1,590**	1,579	**39**	48.5	**–**	–	**164**	170	**–**	293	**542**	–	**2,335**	2,090.5

a. Taxable benefits for the year comprised car allowance, healthcare, taxable expenses and the award of free shares under the all-employee SIP to Tim Jones as set out on page 77.
b. Based on the value of supplements paid in lieu of contributions to the Company Scheme.
c. The estimated 2013 PRSP values reported in last year's report have been updated to reflect the actual share price on the date of vesting (324.5p)
d. The base salary for Phil Urban is £510,000 and for Tim Jones £426,500. The figures set out are the actual salaries received over the financial year, which has 364 days.
e. Alistair Darby left the employment of the group on 26 September 2015. As disclosed in last year's report, his loss of office payment relates to 12 months' payment in lieu of notice which was paid monthly and a £2,000 contribution towards legal fees.
f. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses).
g. Douglas McMahon stepped down from the Board on 13 November 2015.
h. Josh Levy joined the Board on 13 November 2015.
i. Dave Coplin joined the Board on 29 February 2016.
j. Keith Browne joined the Board on 22 September 2016.

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in the policy section of this report. Details of the measures and targets applying to the 2016 plan are set out below:

Performance measures*	Threshold – 98% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)
Operating Profit (£) – 75%	£328m (0%)	£335m (30%)	£346m (75%)
Guest Service: (NPS average % score over the year) – 25%	65.5 (6.25%)	66 (12.5%)	67 (25%)

* Straight-line vesting between points

In determining the Operating Profit target range the Committee took into consideration a range of factors, such as the general economic and market outlook, future cost headwinds and internal plans. The threshold level of Operating Profit was set in line with the 2015 out-turn and target was set broadly in line with market consensus, with an award over target (30%) and towards maximum, requiring significant outperformance over and above the Company's business plan. In setting NPS targets the Committee reflected on the progress made in the prior year and considered what level of further improvement would be required.

The Group delivered Operating Profit of £318m and this fell short of the target set by the Committee. The Operating Profit outcome reflected disappointing trading in the first half of the year with sales declining by 1.6% in that period and by 0.7% over the whole year, following a stronger performance in the second half of the year. Operating Profit was also impacted by wage inflation, primarily driven by the introduction of the NLW in April 2016 and higher levels of investment resulting in an increase in business closures for development or refurbishment. The benefits of this investment should be felt in future years.

The primary measure of Guest Service was Net Promoter Score (NPS), which used a guest survey to measure satisfaction. At the time the Committee set the targets, the Company was reviewing both the survey provider and the method by which data was collected. Therefore, the Committee decided that additional guest metrics would be reviewed alongside the NPS score to ensure that any final assessment of guest service improvement was robust. The Guest Service measure was also subject to Operating Profit achieving a threshold level of performance. Under the old survey basis, the NPS score achieved was 67.1%, which would, potentially, have triggered the maximum pay-out under this element. However, as described above, the Committee would still have taken into account other metrics such as guest complaint resolution and data from TripAdvisor. In the view of the Committee this would have led to a probable reduction in the percentage due under this element. However, as the threshold level of Operating Profit had not been achieved, no award under this bonus element was made.

As a result no bonus awards have been made to Executive Directors in FY 2016.

Long-term incentives vesting during the year

During FY 2014 awards were made to Tim Jones and the former CEO, Alistair Darby, under the terms of the PRSP to the value of 200% and 140% of their respective base salaries. The performance condition has two independent elements, compound annual adjusted EPS growth and TSR performance against a group of peer companies, measured over a three-year performance period ending 24 September 2016.

The table below summarises performance against each element of the performance condition.

2014-2016 PRSP – performance conditions	Target	Actual	% vesting
Total Shareholder Return relative to peer group*	Median – median x 1.35	Below median	Nil
Compound annual adjusted EPS growth	8%-16% CAGR	2.7%p.a.	Nil

* Enterprise Inns, Punch Taverns, Fuller Smith & Turner, Greene King, Marston's, Whitbread, J D Wetherspoon, Spirit Pub Company and The Restaurant Group.

As TSR performance fell below the median performance of the comparator group and EPS fell below the threshold level of performance required, the 2014 plan will lapse.

Update on forecast performance of other PRSP awards

2015-2017 PRSP
Based on current earnings forecasts and TSR performance to the end of FY 2016, the Committee does not anticipate that there will be any vesting at the end of the 2017 financial year.

2016-2018 PRSP
With two performance years remaining, the position could change but specifically in relation to the EPS measure, the significant additional cost challenges and a more detailed assessment of the timing and impact of investment, result in a forecast level of vesting below the threshold level.

Long-term incentive awards made in FY 2016

An award was made in accordance with the rules of the PRSP and as set out in the policy section of this report.

The independent elements of the performance measure for the award made in June 2016, each of which accounts for 50% of the award, are summarised below:

	Threshold vesting target*	Maximum vesting target
1. Compound annual adjusted Earnings Per Share ('EPS') growth (measured before separately disclosed items and other adjustments**).	25% will vest if the compound annual EPS growth is 4%.	100% will vest if compound annual EPS growth is at least 8%.
2. Total Shareholder Return ('TSR') relative to a peer group of comparator companies.***	25% will vest for TSR performance equivalent to the median of the comparator group.	100% will vest for TSR performance equivalent to the upper quartile of the comparator group.

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

** In last year's report, we stated that the Committee agreed to remove the impact of the net pensions finance charge from the EPS calculation. During the year, the Committee reconsidered this approach in light of investors' calls for greater transparency and the importance of managing the pension scheme deficit. The Committee has decided that, on balance, it will revert to using the reported Adjusted EPS figure for this award and those previously granted. The Committee does not believe that this change will make the EPS performance target more or less stretching than before. The change has been made to improve the transparency and reporting of long-term incentive plan outcomes.

*** Comprises the constituents of the FTSE All Share Travel & Leisure group as at the date of grant. The base point for the calculation of TSR is the first three months of the financial year from 27 September 2015 to 31 December 2015 to align with the appointment of Phil Urban as CEO.

Long-term incentive awards made in FY 2016 continued

The EPS and TSR conditions are measured over three years from the start of the financial year in which they are granted, i.e. the three financial years from 27 September 2015, ending in September 2018.

The granting of this award was delayed from November 2015 to enable the Committee to review the scheme design and targets in the context of the business review initiated by Phil Urban following his appointment.

Prior to making the award major shareholders and leading investors were consulted on the performance conditions, and specifically in relation to the revised EPS growth range. The Committee gave careful consideration to the feedback received during the consultation period.

The EPS target range has a threshold level of performance set at 4% growth p.a. and maximum set at 8% growth p.a. The Committee believed that this target range was demanding in the context of the earnings forecast at the time of the award, given the significant cost challenges the business faced. These included, but were not limited to, the introduction of the National Living Wage in April 2016.

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

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

In normal circumstances the share price used to determine the number of options to be awarded is based on the share price on the business day prior to the award being made. This award was made on 29 June 2016, and therefore the prior business day was 28 June, which was the Tuesday following the UK referendum result, and saw a significant fall in share prices across the FTSE 250. The Committee considered the impact of this fall in share price in the context of the number of shares to be granted and concluded that it would not be appropriate to base the award on the 28 June share price of 235.4p. The Committee considered a number of options, including reducing the size of the award, and concluded that the most appropriate course of action was to base the award on the share price at the time the investor consultation ended in mid-June this being 267.7p. Therefore, executives did not directly benefit from the referendum-related fall in the share price.

Details of awards made to Executive Directors under the PRSP are set out below.

	Options awarded during the year to 24/09/16	Basis of award (% of Basic Annual Salary)	Award date	Market price per share used to determine the award (p)*	Actual/ planned vesting date	Latest lapse date	Face value** £
Executive Directors							
Phil Urban	381,022	200	29/06/16	267.7	Nov 18	Nov 20	912,548
Tim Jones	223,048	140	29/06/16	267.7	Nov 18	Nov 20	534,200
Total	**604,070**						**1,446,748**

* The share price on the actual grant date was 239.5p, which was impacted by the result of the UK referendum. The Committee decided that the number of shares awarded should be made by reference to a higher price of 267.7p, being the share price at the time the consultation with investors concluded. A higher price has resulted in fewer awards being granted to executives.

** Face value is the maximum number of shares that would vest (excluding any dividend shares that may accrue) if the performance measure (as described above) is met in full, multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (239.5p).

The aggregate option price of each award is £1.

All-employee SIP and Sharesave

The table below shows the award made to a Director under the free share element of the SIP award made during the year. No awards were made to Directors under the Sharesave plan during 2016.

SIP

	Shares awarded during the year 27/09/15 to 24/09/16	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period
Director						
Tim Jones	1,162	22/06/16	281.9	22/06/19	–	–
Total	**1,162**	**–**	**–**	**–**	**–**	**–**

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 78.

PRSP, STDIP and other share awards

The table below sets out details of the Executive Directors' outstanding awards under the PRSP, STDIP and Sharesave (SAYE).

Name of Director[c]	Scheme	Number of shares at 27 September 2015	Granted during the period	Date of grant	Lapsed during the period	Exercised during the period	Number of shares at 24 September 2016	Date from which exercisable	Expiry date
Phil Urban	PRSP 2015-17[a]	61,738[b]		Jan 2015			61,738	Nov 2017	Nov 2019
	PRSP 2016-17[a]		381,022	Jun 2016			381,022	Nov 2018	Nov 2020
	SAYE 2015	4,972					4,972	Oct 2018	Mar 2019
	Total	**66,710**	**381,022**				**447,732**		
Tim Jones	PRSP 2013-15[a]	169,846	–	Feb 2013	137,661	32,185	–	–	–
	PRSP 2014-16[a]	144,162	–	Nov 2013	–	–	144,162	Nov 2016	Nov 2018
	PRSP 2015-17[a]	161,856	–	Nov 2014	–	–	161,856	Nov 2017	Nov 2019
	PRSP 2016-18[a]	–	223,048	Jun 2016	–	–	223,048	Nov 2018	Nov 2020
	SAYE 2012	4,945	–	Jun 2012	–	4,945	–	–	–
	SAYE 2014	2,743	–	Jun 2014	–	–	2,743	Oct 2017	Mar 2018
	SAYE 2015	2,486		Jun 2015			2,486	Oct 2018	Mar 2019
	Total	**486,038**	**223,048**		**137,661**	**37,130**	**534,295**		

a. 50% of the PRSP award is subject to a TSR condition and the other 50% is subject to adjusted EPS growth targets. During the year, the Committee decided that the reported Adjusted EPS should be used (i.e. after the deduction of IAS 19 and related changes in reporting). As reported on page 75, it is anticipated that there is unlikely to be any EPS vesting, notwithstanding the Committee's change in treatment of IAS 19 charges.
b. Shares awarded to Phil Urban on joining the Company as Chief Operating Officer in January 2015.
c. Alistair Darby left the Board and employment on 26 September 2015. As reported in last year's report the PRSP awards he held will be pro-rated for service and will vest subject to performance. His 2014-2016 award lapsed and he retains an interest in the 2015-2017 PRSP cycle.

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Directors' interests

Executive Directors are expected to hold Mitchells & Butlers' shares in line with the shareholding guidelines set out in the Remuneration Policy report.

Based on the valuation methodology as set out in the shareholding policy, Phil Urban's shareholding was 15.5% of his basic annual salary and Tim Jones's shareholding was 45.2% of his basic annual salary.

The shareholding policy requires that Executive Directors accumulate Mitchells & Butlers shares to the value of a minimum of 100% of salary within five years of appointment to the Board (150% for the CEO). Tim Jones completed five years as an Executive Director on 18 October 2015. The Committee continues to pay close attention to Mr Jones's shareholding and will take into account the number of shares Mr Jones has purchased, the impact of incentive plan vesting and his ongoing commitment to meet this requirement over time.

The interests of the Directors in the ordinary shares of the Company as at 24 September 2016 and at 26 September 2015 were as set out below:

	Wholly owned shares without performance conditions[a]		Shares with performance conditions		Unvested options/awards without performance conditions[b]		Unvested options/awards with performance conditions[c]		Vested but unexercised options		Total shares/options	
	24/09/2016	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015	**24/09/2016**	26/09/2015
Executive Directors												
Phil Urban	**31,306**	–	**–**	–	**4,972**	–	**442,760**	–	**–**	–	**479,038**	–
Tim Jones	**76,518**	43,428	**–**	–	**5,229**	27,820	**529,066**	475,864	**–**	–	**610,813**	547,112
Non-Executive Directors												
Bob Ivell	**12,006**	12,006	**–**	–	**–**	–	**–**	–	**–**	–	**12,006**	12,006
Ron Robson	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Stewart Gilliland	**11,000**	11,000	**–**	–	**–**	–	**–**	–	**–**	–	**11,000**	11,000
Eddie Irwin	**30,000**	30,000	**–**	–	**–**	–	**–**	–	**–**	–	**30,000**	30,000
Douglas McMahon[d]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Colin Rutherford	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Imelda Walsh	**7,500**	7,500	**–**	–	**–**	–	**–**	–	**–**	–	**7,500**	7,500
Dave Coplin	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Josh Levy	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Keith Browne	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**168,330**	103,934	**–**	–	**10,201**	27,820	**971,826**	475,864	**–**	–	**1,150,357**	607,618

a. Includes Free Shares and Partnership Shares granted under the SIP.
b. Options granted under the Sharesave as detailed in the table on page 77 and deferred bonus awards granted under the STDIP.
c. Options granted under the PRSP as detailed in the table on page 76.
d. As at 13 November 2015, the date on which Mr McMahon stepped down from the Board.

32,185 share options were exercised by Tim Jones during the year, of these 15,181 were sold to settle tax due on the 2013-15 PRSP which vested in November 2015.

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

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

Tim Jones acquired 148 shares under the Partnership Share element of the Share Incentive Plan between the end of the financial year and 21 November 2016.

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 24 September 2016 was 270.4p and the range during the year to 24 September 2016 was 217.5p to 364.4p per share.

The Executive Directors as a group beneficially own 0.04% of the Company's shares.

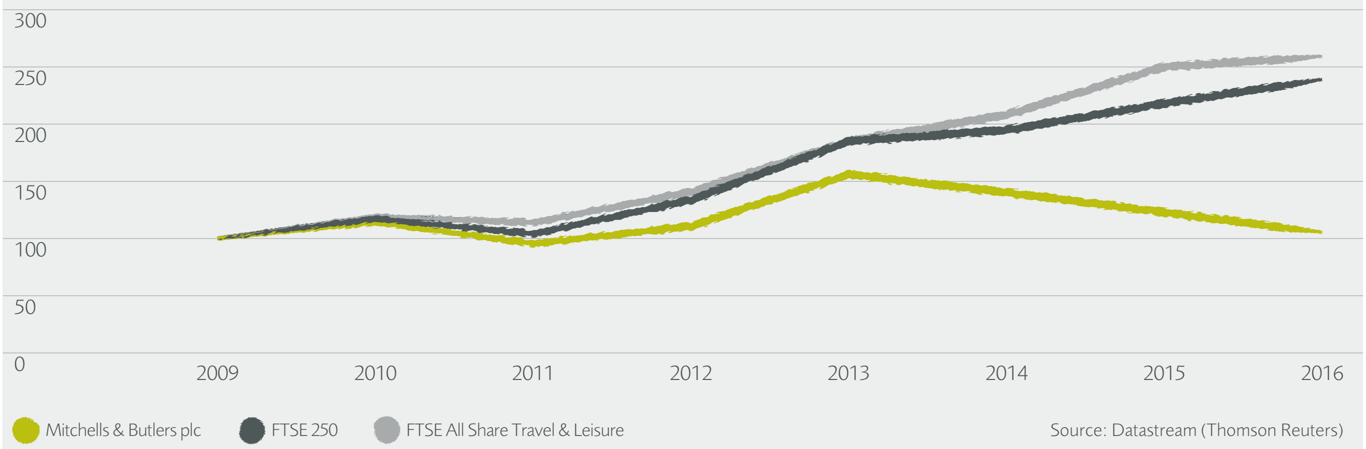
Payment for loss of office

Alistair Darby stepped down as Chief Executive and resigned from the Company on 26 September 2015. His payments for loss of office were fully disclosed in last year's report and the payment in lieu of notice is disclosed in the single figure of total remuneration table.

TSR performance graph

The Company's TSR performance for the last seven financial years is shown below against the FTSE 250 index and the FTSE All Share Travel and Leisure index. The FTSE 250 index has been chosen to show TSR performance as the Company is a member of the FTSE 250. The FTSE All Share Travel and Leisure index is shown as this is the TSR comparator group in the long-term incentive plan.

Total shareholder return from September 2009 to September 2016 (re-based to 100)



Source: Datastream (Thomson Reuters)

CEO earnings history

Year ended	25/09/10	24/09/11	29/09/12	28/09/13	27/09/14	26/09/15	**24/09/16**
Phil Urban							
Single figure remuneration (£000)	–	–	–	–	–	–	**613**
Annual bonus outcome (% of max)	–	–	–	–	–	–	**–**
LTIP vesting outcome (% of max)	–	–	–	–	–	–	**–**
Alistair Darby							
Single figure remuneration (£000)	–	–	–	982[a]	642	878	**–**
Annual bonus outcome (% of max)	–	–	–	71.0	–	–	**–**
LTIP vesting outcome (% of max)	–	–	–	n/a	n/a	19.0	**–**
Bob Ivell							
Single figure remuneration (£000)	–	–	557	69[b]	–	–	**–**
Annual bonus outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	**–**
LTIP vesting outcome (% of max)	–	–	n/a[c]	n/a[c]	–	–	**–**
Jeremy Blood							
Single figure remuneration (£000)	–	397	50	–	–	–	**–**
Annual bonus outcome (% of max)	–	–[d]	n/a[c]	–	–	–	**–**
LTIP vesting outcome (% of max)	–	n/a[c]	–	–	–	–	**–**
Adam Fowle							
Single figure remuneration (£000)	1,315	483[e]	–	–	–	–	**–**
Annual bonus outcome (% of max)	87.6	16.0	–	–	–	–	**–**
LTIP vesting outcome (% of max)	16.2	24.2	–	–	–	–	**–**

a. Alistair Darby formally took up the position of CEO on 12 November 2012 following a short period of induction and handover. The figure shown reflects the date of his appointment to the Board (8 October 2012).
b. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.
c. The Director was not a participant in the plan.
d. Jeremy Blood was not a participant in the short-term incentive plan; at the discretion of the Board a payment of £100,000 was made in respect of his contribution as Interim Chief Executive. This payment is included in the single remuneration figure (£397,000) above. Earnings exclude the fee payable for the period 26 September 2010 to 14 March 2011 during which Mr Blood served as a Non-Executive Director.
e. Earnings disclosed are to 15 March 2011 when Mr Fowle stepped down as CEO.

Change in remuneration of the CEO

	Salary (£)			Taxable benefits (£)			Bonus (£)		
	2016	2015	% Change	**2016**	2015	% Change	**2016**	2015	% Change
CEO	**508,603**	539,925	(5.8)	**15,098**	14,810	1.9	**–**	–	–
Salaried employees	**31,763**	31,380	1.2	**725**	759	(4.5)	**2,525**	1,671	51.1

The change in CEO remuneration is compared to the change in average remuneration of all full time salaried employees, which includes house managers, assistant managers and kitchen managers employed in our businesses.

Salaried employees with part-year service in either FY 2015 or FY 2016 have been excluded from the comparison figures. Retail staff employees have been excluded from the comparator group as they are hourly paid, largely part time and do not participate in any bonus plans. The CEO figures do not include LTIP awards or pension benefits that are disclosed in the single figure table.

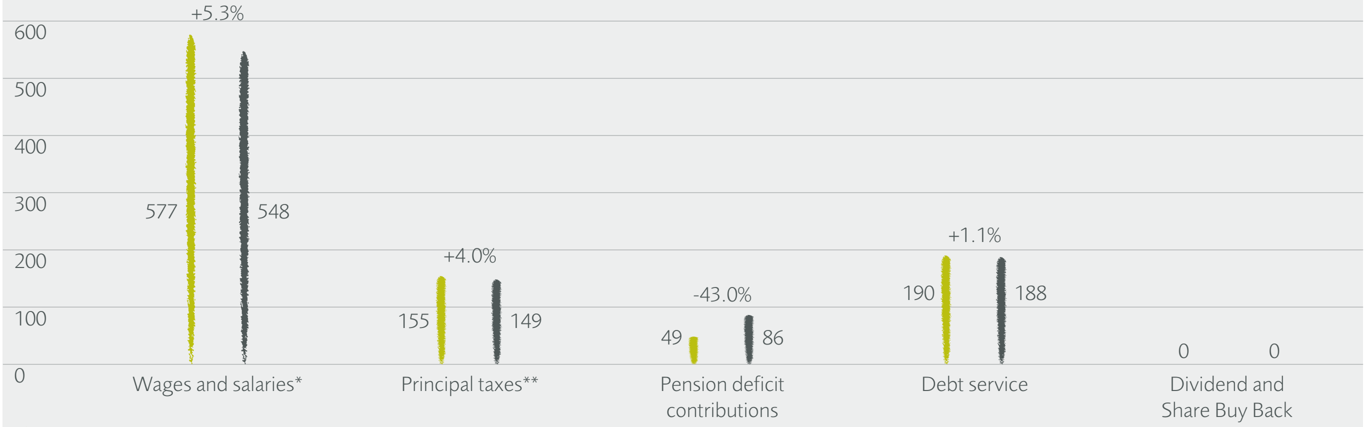
CEO pay ratios

In line with emerging best practice the Committee has decided to include the pay ratio between the CEO, and the median pay of other employees. Based on the CEO single figure set out on page 74 the ratio of pay to the median of all other employees is 1:44. Employee pay includes base salary, incentive payments, employer's pension contributions and benefits. Employees with part-year service have been excluded from the comparison figures.

In assessing our pay ratio versus likely ratios from industry peers, we believe that we are towards the lower end of the range but note that annual and long-term incentive payments have varied considerably amongst this group. In our example, the CEO single figure comprises fixed pay only given that no bonus was awarded and no long-term incentive was capable of vesting in respect of performance in FY 2016. We also recognise that ratios will be influenced by levels of employee pay and in the hospitality sector, despite significant increases over the past year, employee pay will be lower than in other sectors of the economy.

We have provided this additional disclosure but look forward to greater debate and clarification over the method of calculation and how this additional information will inform discussion on executive remuneration.

Relative importance of spend on pay £m



* From note 2.3, Accounts, excludes share-based payments. ** Business Rates, Corporation Tax, Employer's NI.

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2016, £2.1m (0.36%) was paid to Executive and Non-Executive Directors (2015 £1.58m (0.29%).

The increase in wages and salaries is primarily a result of NMW and NLW. In FY 2015 the Company made an additional one-off pension deficit contribution in accordance with the agreement made with the Trustee.

Implementation of Remuneration Policy in FY 2017

Executive Directors' salary review

No salary increase will apply for any Executive Director. Phil Urban's salary will remain at £510,000 and Tim Jones' at £426,500. Salaries will next be reviewed as part of the upcoming Remuneration Policy review.

Annual performance bonus

The Committee has reviewed the performance measures and the bonus for 2017 will continue to be based 75% on Financial Performance and 25% on Guest Service.

Operating Profit

- The threshold at which a bonus will begin to accrue will be set at 95% of target, slightly lower than in 2016, reflecting the demanding nature of the target set by the Committee. Maximum payment for the Operating Profit element will be for achievement of 105% of target, increased from 103% in 2016. The amounts payable at threshold, target and maximum remain unchanged from 2016.
- The Committee felt that a slightly wider performance range was appropriate given the ongoing economic uncertainty and continuing cost pressures, including the additional costs associated with the accelerated investment in our estate, which increases the number of closure weeks due to site redevelopment. Whilst these closures have a short-term impact, in the medium term good returns are anticipated. There is also an expectation that operational and tactical activity aligned to the strategic objectives will begin to impact positively on sales, and there may be some benefits as we see higher wages from the introduction of the NLW flowing through to the wider economy.
- In setting the range from threshold to maximum, the Committee took into consideration the Company's latest business plan and market consensus.

Guest Service

- NPS will continue to be the lead measure of Guest Service. The targets are now based on the new survey, which the Committee believes has a more robust method of collecting data and therefore result validity. Guests are being invited to provide feedback in different ways, either directly by a member of the team or by email or text invitation following their visit. Again, the Guest Service element will only be payable if the threshold level of financial performance is achieved. For 2017 this will be set at 95% of target in line with the threshold level set for Operating Profit.
- The Committee has also agreed that prior to any bonus being approved in relation to Guest Service, progress against other guest metrics will be considered, such as TripAdvisor reviews and the speed at which guest complaints are addressed. This rounded assessment will ensure that guest service improvements are assessed comprehensively and not solely based on a single metric.

More broadly, the Committee is committed to ensuring that any bonus or incentive payment is consistent and representative of the overall performance of the Company.

Operating Profit and NPS targets are considered to be commercially sensitive and will not be disclosed in advance. However, retrospective disclosure of targets and performance against them will be provided in next year's Directors' remuneration report.

Long Term Incentive Plans

- A PRSP award is due to be made in respect of the 2017 to 2019 performance period. The Committee has reviewed the performance condition and targets and concluded that the performance measures should remain unchanged from the June 2016 award, with two equal elements, growth in adjusted EPS and relative TSR. The Committee has also concluded that the EPS target range should remain unchanged, with the threshold set at 4% growth p.a. and maximum vesting at 8% growth p.a.
- In setting the EPS target range the Committee has considered the impact on earnings resulting from the ongoing work to reposition the estate, and the ongoing impact of the NLW. In addition, the past six months has seen further cost headwinds emerge, for example the impact of weaker sterling on input costs, the Apprenticeship Levy and increases to utility, rent and business rates. In light of this, the Committee believes the EPS range remains very challenging in the circumstances.

The table below summarises the performance condition for FY 2017-2019:

Performance measures (each accounting for 50% of the award)	Threshold vesting target*	Maximum vesting target
1. Compound annual adjusted Earnings Per Share ('EPS') growth (measured before separately disclosed items and other adjustments).	25% will vest if the compound annual EPS growth is 4% per annum.	100% will vest if compound annual EPS growth is at least 8% per annum.
2. Total Shareholder Return (TSR) relative to a peer group of comparator companies comprising the FTSE All Share Travel & Leisure group.	25% will vest for TSR performance equivalent to the median of the comparator group.	100% will vest for TSR performance equivalent to the upper quartile of the comparator group.

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

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

As disclosed in last year's report, from 2014 the Committee agreed to remove the impact of the net pensions finance charge from base and end-year EPS as some of the factors that impact on the calculation of the charge, such as the bond-market derived discount rate, are outside the control of management. A further review of practice has been completed and acknowledging that the use of reported figures provides greater transparency and the ongoing importance of managing the pension deficit, the Committee has decided that it will revert to using the reported Adjusted EPS for all current and future awards. As disclosed earlier, this technical change is unlikely to change the vesting outcome of awards which have been granted.

The Committee will continue to undertake a rigorous examination of the quality of the performance achieved and identify any factors that are unusual or may have a material influence on the outcome of an award but did not represent underlying performance, including the impact of the net pensions finance charge.

Non-Executive Directors' fee review

The fee applicable to the Chairman will remain at £285,000. Non-Executive Directors' fees also will remain unchanged.

Imelda Walsh
Chair of the Remuneration Committee
21 November 2016