



Annual Report and  
Financial Statements  
2004

**Mitchells  
& Butlers**

Turnover

**£1,560m**

Up **4%** from £1,504m (2003)

EBITDA\*

**£393m**

Up **5%** from £374m (2003)

Operating profit\*

**£285m**

Up **4%** from £275m (2003)

Profit before tax\*

**£184m**

Down **8%** from £199m\*\* (2003)

Net operating cash flow\*\*\*

**£284m**

Up **£43m** from £241m (2003)

Earnings per share\*

**22.2p**

Up **21%** from **18.4p**\*\* (2003)

Basic earnings per share

**22.4p**

Up **32%** from **17.0p** (2003)

Total dividend per share

**9.5p**

\* Before exceptional items.

\*\* On a pro forma basis.

\*\*\* Before exceptional items and after net capital expenditure.

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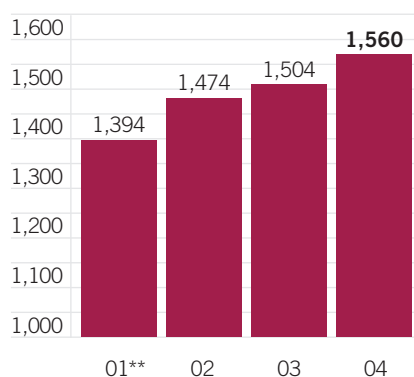
## The Dexter, Ember Inn, Leeds

The Dexter (pictured on the cover and above) operates within the Ember Inns brand, where we aim to create excellent quality local pubs through improvements to the design, furnishings and fittings; broadening the drinks range and menu and offering a range of community events, ensuring the pub continues to be at the heart of the community.

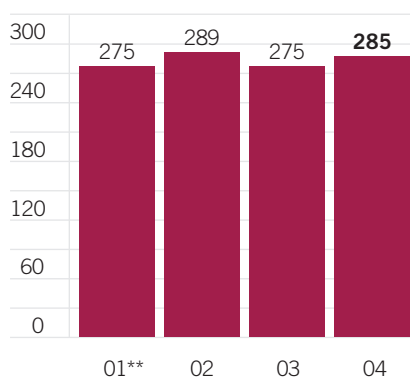
# Highlights

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants with over 2,000 outlets in prime locations offering eating, drinking and entertainment to our customers nationwide.

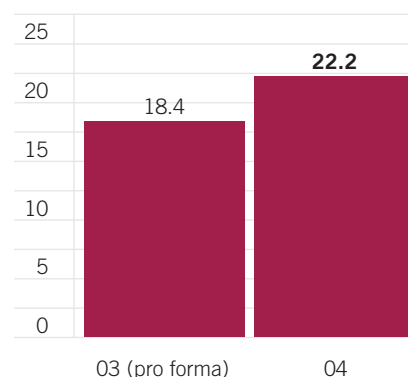
Turnover £m\*



Operating profit £m\*\*\*



Earnings per share p\*\*\*



Average weekly take per pub up 8% to £15.2k

Food and drink volumes up 7%

Net operating cash flow\*\*\* up 18% to £284m

Post-tax cash returns above 10%

\*comparatives restated for the Amendment to FRS 5

\*\*excludes Inns & Other, disposed of in 2001

\*\*\*before exceptional items



## Operating and financial review

This Operating and financial review provides a commentary on the performance of the Mitchells & Butlers group for the year ended 25 September 2004 and compares it with the year ended 27 September 2003. The Company was created on its separation from Six Continents PLC on 15 April 2003, and its shares have been listed on the London Stock Exchange since that date.

### Profit & loss account

	2004*	Pro forma 2003**	2004	2003**
	£m	£m	£m	£m
<b>Turnover</b>				
Pubs & Bars	913	873	913	873
Restaurants	641	614	641	614
Retail	1,554	1,487	1,554	1,487
SCPD	6	17	6	17
	<b>1,560</b>	<b>1,504</b>	<b>1,560</b>	<b>1,504</b>
<b>Operating profit</b>				
Pubs & Bars	180	177	180	177
Restaurants	104	96	104	96
Retail	284	273	284	273
SCPD	1	2	1	2
Operating exceptional items	–	–	(2)	(5)
<b>Total operating profit</b>	<b>285</b>	<b>275</b>	<b>283</b>	<b>270</b>
Non-operating exceptional items	–	–	2	(42)
<b>Profit before interest</b>	<b>285</b>	<b>275</b>	<b>285</b>	<b>228</b>
Finance charge	–	(76)	–	–
Net interest payable	(101)	–	(101)	(55)
Exceptional interest charge	–	–	(2)	(8)
<b>Profit before taxation</b>	<b>184</b>	<b>199</b>	<b>182</b>	<b>165</b>
Taxation	(60)	(64)	(57)	(40)
<b>Profit for the financial year</b>	<b>124</b>	<b>135</b>	<b>125</b>	<b>125</b>
Dividends	–	–	(550)	(29)
<b>Retained (loss)/profit</b>			<b>(425)</b>	<b>96</b>
<b>Earnings per share</b>				
Basic	–	–	22.4p	17.0p
Adjusted/pro forma	22.2p	18.4p	–	–

\*Excluding exceptional items.

\*\*Restated on the adoption of the Amendment to FRS 5.

The statutory Group profit and loss account is shown on page 26.

The commentary refers to the actual results of the Group except where the term 'pro forma' is used. The pro forma results show the performance of the Group for 2003 excluding exceptional items and as if it had been an independent company since 1 October 2002 operating under the financing and taxation structure put in place on 15 April 2003, the date of separation from Six Continents PLC.

### Strategy, estate positioning and development

Mitchells & Butlers is the leading operator of pubs and pub restaurants with an estate of 2,006 sites at 25 September 2004. The assets are predominantly freehold, in residential areas with a net book value of £3.5bn. The 1,919 managed outlets had average weekly sales of £15.2k in the period, an increase of 8% on last year. With 3% of the UK's 60,000 pubs, Mitchells & Butlers has a 9% share of pub retail sales.

Mitchells & Butlers' strategy is to:

- Provide the best value experience available in the informal eating and drinking-out markets through a combination of a wide range of food and drink, high quality amenity, excellent service and good price value.
- Build on the active repositioning of the business over the last 10 years towards the faster growing eating-out market by pursuing strong growth in food sales and drinks market share gains.
- Maximise returns from its £3.5bn asset base by identifying the most appropriate brand or operating format that will maximise the sales and profits from each trading property.

- Continually evolve and develop its brands and formats in line with key customer demand trends in order to attract a wide and growing customer base.
- Combine the productivity benefits of unit scale with the purchasing and support cost benefits of corporate scale.

Mitchells & Butlers aims to grow sales and profits, generate higher cash returns and as pub assets are valued as a multiple of their cash flows, achieve asset appreciation over time.

### Overall performance

Total sales for the year were £1,560m, 3.7% ahead of last year. Sales growth continues to be particularly strong in the residential sectors of the market, led by strong food sales growth, with total managed pub food volumes up 8% for the year. Our High Street businesses continue to gain market share in a competitive market.

	Same outlet like-for-like sales*	Uninvested like-for-like sales*
Residential pubs	6.6%	4.8%
High Street pubs	3.4%	1.5%
Total	5.6%	3.8%

\*52 weeks to 25 September 2004.

Sales activity has focused on widening the consumer offer by extending the range of food and drink and managing the product mix to maximise volume and overall profit contribution. This has enabled us to offer better value to customers, with the average price of food and drink down approximately 2% and coupled with the negotiation of improved terms from suppliers, to achieve gross margins broadly in line with last year.

Tight cost management maintained outlet employment costs at 24% of sales despite a 7% increase in the National Minimum Wage. The Group also benefited from an incremental £5m of support cost savings following actions put in place during 2003.

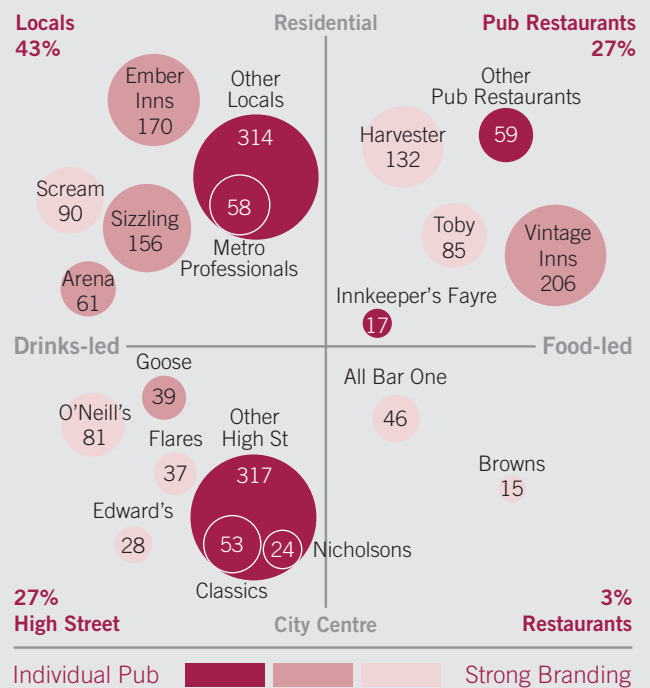
A total of £150m capital was invested in the year. Nine new pubs were opened during the year, all in the Restaurant division. In addition, one new Hollywood Bowl opened. Ninety-five pubs were converted to a new brand or format, principally our residential brands and formats: Sizzling Pub Co, Ember Inns and the Metropolitan Professionals format. This expansionary capital accounted for £57m of the gross capital invested and the balance of £93m was invested in maintaining the high quality amenity of our pubs and continuing to evolve our brands and formats. We achieved proceeds of £51m from disposals of pubs or surplus pieces of land during the year, often for re-development.

Operating profit before exceptional items was up 3.6% at £285m, the business has generated post tax cash returns of over 10% and, with the refinancing of the business, 21% growth in earnings per share on a pro forma basis.

### Pubs & Bars

	FY 04	vs FY 03
Total sales	£913m	4.6%
Operating profit	£180m	1.7%
Same outlet like-for-like sales		4.6%
Uninvested like-for-like sales		2.3%

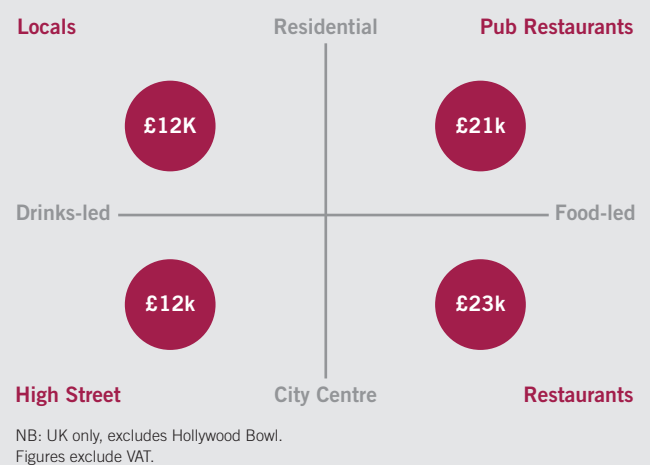
### Number of pubs by brand or format



Note:

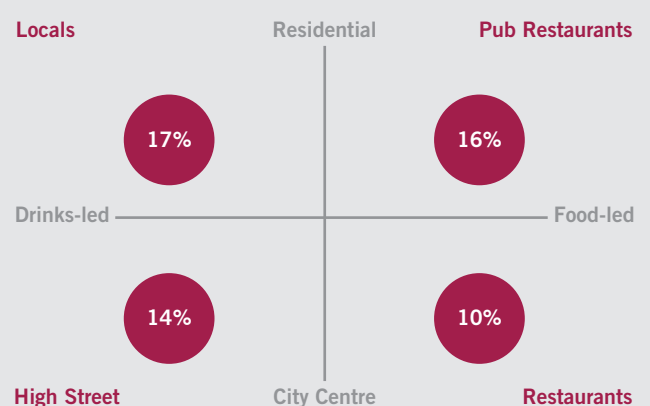
- 1 Excludes Hollywood Bowl (24 outlets) and Alex (42 outlets).
- 2 The Group operates 3,612 rooms adjacent to its pubs and pub restaurants under the Innkeeper's Lodge (70 sites) and Express by Holiday Inn brands (24 sites).
- 3 Percentages represent split of UK managed sites (excluding Bowling and Hotels) at end FY 2004.

### Average weekly sales



NB: UK only, excludes Hollywood Bowl. Figures exclude VAT.

### Incremental returns\*



\*On £1bn of expansionary capital expenditure over last 14 years.

Sales growth has remained strongest in the residential segment with Sizzling Pub Co and Ember Inns, our two drinks-led brands with distinct food offers, showing a particularly strong performance. Despite a very competitive market, our drinks-led offers on the High Street have continued to perform well, assisted by a recovery in Central London in the second half.

Seventy-eight conversions of existing pubs were completed during the year. The number of managed pubs and bars reduced to 1,317 following a number of disposals and transfers to business franchise net of transfers in from the Restaurant division. There were on average 1,333 trading outlets during the year.

The Group has been developing a business franchise model for smaller properties that can benefit from entrepreneurial freedom supported by Mitchells & Butlers systems and purchasing scale in return for a fixed rent and turnover related franchise fee. At the year end there were 75 business franchises in operation (2003:18).

Despite the increase in external costs during the year and the Group's sales activity, which was biased towards Pubs & Bars, net operating margins were only 0.6% points below last year and operating profits were up by 1.7%.

## Restaurants

	FY 04	vs FY 03
Total sales	£641m	4.4%
Operating profit	£104m	8.3%
Same outlet like-for-like sales		7.0%
Uninvested like-for-like sales		5.9%

The like-for-like sales growth of the division reflects particularly strong trading by our pub restaurant brands Toby Carvery, Vintage Inns and Harvester, which are capturing a disproportionate share of the growth in the eating-out market. The lower rate of total sales growth reflects 17 transfers to Pubs & Bars during the year, where the demographics around the pub mean that it is now better suited to a more drinks-led offer as well as a number of transfers to business franchises.

A total of nine new pubs were opened during the year, eight Vintage Inns and one Toby Carvery. Seventeen pubs were converted, ten to Toby Carvery and five trial sites trading under a new suburban pub dining format which we are developing jointly as managed pubs with an entrepreneur. As a result, there were 602 pubs at the year end.

Strong sales growth in food, drinks and accommodation, together with further progress on staff productivity enabled the division to more than offset external cost pressures and improve net operating margins by 0.6% points. As a result, operating profit was 8.3% ahead of last year at £104m.

## Standard Commercial Property Developments (SCPD)

SCPD aims to maximise the value of the Group's surplus properties which are suitable for development. Turnover of £6m and operating profit of £1m were generated during the year, primarily from the sale of a retail development in

Bournemouth on the site of a former pub. The business continues to develop its existing properties whilst actively reviewing the Group's real estate portfolio for additional opportunities to realise development value.

## Exceptional items

Exceptional operating costs of £2m (2003: £4m) relate to the securitisation of the Group's UK pub and restaurant business which was completed on 13 November 2003 (see below). An exceptional interest charge of £2m (2003: £8m) arose from accelerated amortisation of the facility fee in respect of the syndicated loan facility put in place at the time of separation and repaid on securitisation. The non-operating exceptional profit of £2m arose on the disposal of pubs, often for alternative use.

## Interest

The net interest charge for the year was £101m, before the exceptional charge of £2m, reflecting the fixed rate interest payable and amortisation of deferred issue costs arising from the £1.9bn of secured loan notes issued on securitisation in November 2003, net of interest income earned on surplus cash. Prior to November 2003, the Group had floating rate borrowings of around £1.3bn under a syndicated loan facility.

The 'statutory' interest charge for the comparative periods does not provide a fair reflection of Mitchells & Butlers as a stand-alone group as, prior to separation, the Group was funded by inter-company loans from Six Continents PLC. The 'pro forma' Group profit and loss account therefore includes a finance charge calculated on the basis that the post separation financing structure had been in place since 1 October 2002. The net interest charge of £101m is £25m higher than the 'pro forma' charge for last year reflecting the higher level of net debt after the refinancing and return of £501m to shareholders.

## Taxation

The tax charge of £60m, excluding exceptional items, represents an effective tax rate of 32.4% which is higher than the UK statutory rate of 30% due to non-allowable items, in particular the depreciation of properties. The equivalent effective tax rate for the previous year was 32.3%. Including the effect of exceptional items, the effective tax rate was 31.3%, higher than last year's rate of 24.0% which benefited from a one-off receipt of group relief from the Six Continents group.

## Earnings per share

Earnings per share, calculated before exceptional items were 22.2p, up 21% compared to 'pro forma' earnings per share for 2003. Management consider this to be the most meaningful measure of the underlying performance of the Group as it has been calculated on the basis that the post separation financing and taxation structure at separation had been in place since 1 October 2002.

Adjusted earnings per share, which excludes exceptional items but does not adjust for the post separation financing structure, was 22.2p, compared with 20.3p last year. Basic earnings per share for the year were 22.4p compared with 17.0p last year.

### Dividends and returns to shareholders

The dividend charge for the period of £550m comprises the special dividend of £501m paid on 8 December 2003, the interim dividend of £15m paid on 1 July 2004 and the proposed final dividend for the year of £34m. The proposed final dividend of 6.65p together with the interim dividend of 2.85p give a total dividend for the year of 9.5p, the target set out at the time of separation. Subject to approval at the AGM, the final dividend will be paid on 31 January 2005 to shareholders on the register on 10 December 2004.

### Cash flow and net debt

The Group's activities continue to generate strong cash flows with EBITDA of £393m before exceptional items, up 5.1% on last year. Operating cash flow after net capital expenditure but before expenditure relating to exceptional items was £284m compared with £241m last year.

Net interest paid was £98m, tax paid was £34m and ordinary dividend payments were £44m. Following the refinancing and return of £501m to shareholders in December 2003, accompanying issue costs and additional pension contributions, the Group had net debt at 25 September 2004 of £1.63bn.

### Share price and market capitalisation

As at 25 September 2004 the share price was 259p compared to 230p at the start of the financial year. The Company was a member of the FTSE 100 index until 18 December 2003 when, following the return of £501m to shareholders by way of special dividend and accompanying 12 for 17 share consolidation, the Company became a member of the FTSE 250 index. The market capitalisation of the Group at 25 September 2004 was approximately £1.36bn.

### Refinancing

On 13 November 2003, the Group completed a securitisation of the majority of its pubs, raising a total of £1.9bn through the issue of secured loan notes. The proceeds from the securitisation were used to repay the Group's outstanding borrowings of £1.24bn under its syndicated loan facility, meet the costs of the refinancing, make special additional contributions to the pension schemes and return surplus funds of £501m to shareholders by way of a special dividend of 68p per share accompanied by a 12 for 17 consolidation of the number of shares in issue.

The terms of the securitisation were designed so as to put in place the optimal financing structure for the business, improving the efficiency of the balance sheet whilst maintaining appropriate flexibility to support the Group's long-term strategy.

The securitisation provides the Group with long-term financing at a cash interest cost of 6% pre tax, including swap agreements to hedge the floating rate tranches of the securitised debt.

### Treasury management

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

The Treasury department is responsible for ensuring that robust procedures are in place for the Company to comply with the terms of the securitisation completed in November 2003. It is also responsible for identifying and managing

foreign exchange exposures. Whilst the Group has limited operations in Germany, the impact of movements in the Euro exchange rate do not have a material affect on the Group's results. Consequently the only foreign exchange hedging transactions undertaken in the financial markets were in respect of hedging the issuance of US Dollar denominated notes within the securitisation.

Permitted interest rate hedging methods include the use of fixed rate debt, interest rate swaps, options (such as caps) and forward rate agreements. Interest rate swaps were utilised during the period to fix the interest cost relating to the floating rate tranches of notes within the securitisation.

Credit risk on treasury transactions is further minimised by operating a policy for the investment of surplus funds that generally restricts the bank counterparties to those with an A credit rating or better, or those providing adequate security. Limits are also set with individual counterparties. Most of the Group's surplus funds are held with financial institutions in the UK.

### Pensions

On an FRS 17 basis before the deferred tax asset, the Group's pension schemes showed a deficit of £173m at 25 September 2004 compared with £243m at 30 September 2003. The reduction in the deficit reflects the benefit of £40m of additional pension contributions paid in the year and improved investment returns, offset by an increase in life expectancy assumptions.

Actuarial valuations of the Group's pension schemes as at 31 March 2004 are currently being finalised. They indicate an actuarial deficit of £167m on an ongoing basis at that time. As a result, regular annual service contributions to the schemes will increase by around £3m with effect from 26 September 2004. The next actuarial valuation will take place in line with the normal triennial cycle in 2007.

### Cash flow

	2004 £m	2003 £m
Operating profit*	285	275
Depreciation and amortisation	108	99
<b>EBITDA*</b>	<b>393</b>	374
Working capital movement	26	(3)
Additional pension contributions	(40)	(27)
Other non-cash items	4	-
<b>Net cash inflow from operating activities*</b>	<b>383</b>	344
Purchase of tangible fixed assets	(150)	(151)
Sale of tangible fixed assets	51	48
<b>Net capital expenditure</b>	<b>(99)</b>	(103)
<b>Operating cash flow after net capital expenditure*</b>	<b>284</b>	241
Net interest paid	(98)	(49)
Tax paid	(34)	(44)
Normal dividends paid	(44)	-
Special dividends paid	(501)	-
Issue costs paid in respect of securitised debt	(22)	(1)
Separation costs paid	(1)	(36)
Facility fees paid	-	(15)
Other net cash flows	(7)	2
<b>Net cash flow</b>	<b>(423)</b>	98

\*Before exceptional items.

The statutory group cash flow statement is shown on page 29.

The Company has agreed with the Trustees to make further cash contributions to the pension plans of £40m in total over the next three years to help reduce the deficit in the funds. This is in addition to the remaining two payments of £10m, to be paid in each of the next two financial years, as agreed at the time of the securitisation.

After a tax credit of 30%, the net cash cost to the Company of these contributions will be £28m and £14m respectively.

### Accounting policies

Amendment to FRS 5 'Reporting the substance of transactions: Revenue recognition' and UITF 38 'Accounting for ESOP Trusts' apply for the first time this year. As a result, the Group has changed its accounting policy on revenue recognition to record turnover net of coupons and staff discounts. Prior year comparatives have been restated accordingly. The effect has been to decrease the Group's reported turnover by £12m (2003 £9m) with no impact on reported profits. UITF 38, which requires an entity's own shares held in Employee Share Trusts to be deducted from shareholders' funds rather than being shown as an asset, has resulted in own shares of £11m being deducted from shareholders funds at 25 September 2004, but has not required a restatement of prior year comparatives.

The Group has continued to account for pensions under SSAP 24 'Accounting for Pension Costs' whilst providing the additional disclosures required by FRS 17 'Retirement Benefits' in the notes to the financial statements. The Group intends to adopt FRS 17 in full for the year ending 1 October 2005 which should assist the transition to International Financial Reporting Standards (IFRS). The impact of this change in accounting policy on the 2004 comparatives will be to reduce reported profit before tax by £11m and net assets by £219m.

### IFRS implementation

The Group will be required to adopt IFRS when preparing its consolidated financial statements for 2005/06. Accordingly, the Annual Report for the coming year to 1 October 2005 will be the last to contain financial statements prepared under UK accounting standards (UK GAAP).

Under IFRS the Group will be required to restate its results for the year to 1 October 2005 and reconcile these to the previously reported UK GAAP numbers. This requirement will apply to the Group for the first time in respect of the interim financial statements for 2005/06.

Mitchells & Butlers is in the process of identifying and resolving all conversion issues to ensure a smooth transition to IFRS. The main areas of difference identified to date arise in respect of the following standards:

- Deferred taxation
- Share based payments
- Derivatives and hedge accounting
- Pensions.

The proposed amendments to IAS 19 (Pensions) should align accounting for pensions with that required by FRS 17, which the Group will adopt in full under UK GAAP next year. As a result, if the proposed amendments are adopted, there will not be any material differences on implementation of IFRS.

Other areas of difference may become apparent during the conversion process. In particular, the impacts of IFRS on fixed assets accounting and leasing are still being reviewed. The Group intends to provide a fuller update on the impact of IFRS later in 2005.





## Directors' report

The Directors present their report for the financial year ended 25 September 2004.

### Principal activities

The Group is the leading operator of managed pubs and pub restaurants, with an estate of 2,006 sites at 25 September 2004, principally located in the UK, but with 42 outlets in Germany.

### Business review and future developments

The Directors' Report should be read in conjunction with the Operating and Financial Review on pages 2 to 6 and the Chairman's Statement, the Chief Executive's Review, the Finance Director's Report and the business reviews in the Annual Review and Summary Financial Statement, which together include information about the Group's business, the financial performance during the year and likely developments.

### Formation of the Company and demerger from Six Continents

The Company was incorporated on 2 October 2002. Following demerger from the hotels and soft drinks interests of Six Continents PLC, it became an independent listed company on 15 April 2003.

### Securitisation and return of shareholder funds

Following demerger, the Company refinanced its operations through a securitisation of the majority of its UK pubs and pub restaurants business. The sum of £1.9bn was successfully raised by means of a bonds issue and the Company's existing £1.2bn of borrowings were repaid on 13 November 2003.

Having been approved by shareholders, the ordinary share capital was consolidated on 2 December 2003 on the basis of 12 new ordinary shares for every 17 existing ordinary shares and, on 8 December 2003, £501m was returned to shareholders by means of a special dividend of 68p per share.

### Final dividend

The Board recommends a final dividend for the year ended 25 September 2004 of 6.65p per share to be paid on 31 January 2005 to shareholders on the register at close of business on 10 December 2004.

### Employees

The Group employed an average of 37,207 people in 2004.

It is committed to providing equality of opportunity to all employees without discrimination and is supportive of the employment and advancement of disabled persons.

Considerable emphasis is placed on employee communication, particularly on matters relating to the Company's business and its performance. Communication channels include regular team meetings, communication forums, informal briefings, in-house publications and intranets. Regular feedback is obtained through employee focus groups and employee opinion surveys, the results of which are used in developing management policies and best practice.

The Company has established a Business Forum to bring together senior managers and employee representatives to discuss business issues.

### Health and safety

The Group strives to provide and maintain a safe environment for all employees, customers and other visitors to its premises and to comply with relevant health and safety legislation. In addition, all Group companies:

- aim to protect the health of employees with suitable, specific work-based strategies;
- seek to minimise the risk of injury from company activity;
- ensure that through senior management participation, sufficient resources and information are made available and suitable management systems are in place to address health and safety matters; and
- encourage the involvement of employees and aim for continual improvement in health and safety matters through a formal structure with a reporting and review process.

Compliance with Group policy is monitored and audited centrally and a comprehensive annual health and safety report is produced for the Board.

### Environmental and social responsibility

Mitchells & Butlers recognises that it is part of a wider community of employees, shareholders, customers, suppliers and other stakeholders and recognises that it has a

responsibility to act in a way that respects the social, economic and environmental wellbeing of the wider world. A summary of the Company's approach to these issues is set out on pages 20 and 21 of the Annual Review and Summary Financial Statement and on the Company's website. Its business conduct guidelines and Code of Ethics set out the standards of behaviour expected from those working for the Company. The Group's corporate and social responsibility policies are available on the Company's website.

### Share capital

On 2 December 2003, the Company's ordinary share capital was consolidated on the basis of 12 new ordinary shares for 17 existing ordinary shares. During the year, 4,105,170 shares (as adjusted for the consolidation) were issued under share schemes and at 25 September 2004, 523,792,544 shares were in issue.

### Substantial shareholdings

As at 30 November 2004, the Company had been notified of the following substantial beneficial interests (3% or more) in its shares:

AXA S.A.	4.30%
Legal & General Investment Management Ltd	3.48%
Aviva plc	3.20%
Standard Life Group	3.01%

### Employee share plans

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

#### Sharesave plan

In May 2004, options were granted to 1,398 employees over 1,569,048 shares at 209p per share, a 20% discount to the market price.

#### Share incentive plan

During the year 378,535 shares were allocated by the Share Incentive Plan Trustee as free shares to 8,098 eligible employees subject to the plan rules.

#### Executive share option plan

In May 2004, options were granted to 60 employees over 3,900,826 shares at 252.5p per share. Options under this plan are only exercisable if a performance condition is met and, for options granted in 2004, the condition is set out on page 16.

#### Performance restricted share plan

In 2004, 20 employees were invited to participate subject to the achievement of performance conditions as set out on page 16. No shares vested under this plan during the year.

#### Short term deferred incentive plan

This plan enables the Company to award Executive Directors all or part of their annual performance bonuses in shares, together with a related award of shares by the Company, which is deferred.

No shares were released during the year and Executive Directors' maximum accrued entitlements for the year and for future release are set out on page 19.

### Headroom limits

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the plans. At 25 September 2004, the position under the '5% in 10 years' limit for discretionary plans was that shares equivalent to 1.8% of the ordinary share capital had been allocated, whilst under the '10% in 10 years' limit for all share plans the equivalent amount allocated at 25 September 2004 was 2.7%.

### Policy on payment of suppliers

The Company is a holding company and has no trade creditors. The policy of its principal operating subsidiaries is to agree particular payment terms with major suppliers and abide by those terms, subject to satisfactory performance by the supplier. Amounts owed to other suppliers are settled in or before the end of the month following that in which the subsidiary receives a valid invoice.

### Charitable donations

The Company supports community initiatives and charitable causes and in 2004 donated £103,300 (2003 £71,000). In addition to these cash contributions, employees are encouraged to give their time and skills to a variety of causes and the Company makes donations in kind, such as making its facilities available for use or by giving free meals in Company premises. It is estimated that those contributions raised the total value of the Company's donations to approximately £708,500 (2003 £620,000).

### 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 Annual General Meeting in 2005 to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

### Going concern

The financial statements which appear on pages 26 to 54 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

### Annual General Meeting

The Notice convening the Annual General Meeting to be held at 11am on Wednesday, 26 January 2005 is contained in a circular sent to shareholders with this report. At the meeting, resolutions will be proposed to renew the authority to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares.

### Auditors

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

**By order of the Board, Bronagh Kennedy**  
Company Secretary, 30 November 2004



## Corporate governance

### Combined Code compliance

The Board is committed to compliance with the principles of corporate governance as set out in the Combined Code on Corporate Governance ('the Code') and considers that the Company has complied throughout the year ended 25 September 2004 with all the provisions of the Code.

Following the findings of the Higgs Committee on the role and effectiveness of Non-Executive Directors and the Smith Committee on audit committees, a revised Combined Code was issued in July 2003 ('the Revised Code'). Its provisions became effective for companies' financial periods beginning on or after 1 November 2003 and technically do not impact this Company until its year which commenced on 26 September 2004. The Company has, however, already taken steps to meet the requirements of the Revised Code and considers that as at 25 September 2004, it was fully compliant and remains so.

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

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

- strategic plan achievement, through a comprehensive series of strategic reviews;
- financial performance, within a comprehensive financial planning and accounting framework;
- capital investment and asset management performance, with detailed appraisal, authorisation and post investment reviews; and
- risk management, through an ongoing process, which accords with the Turnbull guidance and

provides assurance through reports from the Director of Group Assurance that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

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

Through the monitoring processes set out above, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 25 September 2004. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and the Board is not aware of any change to this status up to the approval of this Annual Report.

In line with recent developments in good corporate governance and to comply with the Group's US obligations under the Sarbanes-Oxley Act, the Group has developed a process to review the effectiveness of internal financial control based on the framework published by the Committee of Sponsoring Organisations of the Treadway Commission ('the COSO framework'). This process will be utilised to evaluate internal financial controls during 2004/05 and a report on the effectiveness of the Company's internal financial controls under the COSO framework will be made as at the end of that financial year.

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

## Board and committee structure

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

### The Board

The Board consists of the part-time Non-Executive Chairman, four Executive and four independent Non-Executive Directors. The appointment of a fourth independent Non-Executive Director during the year means that the balance between Executive and independent Non-Executive Directors complies with the requirement of the Revised Code.

There are nine regular Board meetings planned for 2005, with further ad hoc meetings as required to consider matters which are time critical. There were eight meetings during 2004 and there was full attendance, except for one meeting when Mike Bramley and Sir Tim Lankester were unable to attend. Despite being unable to attend this meeting, these Directors were nevertheless provided with all the papers and information relating to that meeting and were able to discuss issues arising with the Chairman and the Chief Executive.

The Board is responsible to the shareholders for the strategic direction, development and control of the Group. It therefore approves strategic plans and 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. The Board ensures that the necessary financial and human resources are in place for the Company to meet its objectives. The Board has established a schedule of matters which are reserved for its attention which are published on the Company's website.

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

The Company Secretary's responsibilities include ensuring good information flows to the Board and its committees and between senior management and the Non-Executive Directors, as well as facilitating the induction of Directors and assisting with their professional development as required. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters.

The following were Directors of the Company during the year:

		<b>Appointed</b>
Roger Carr	Chairman	10.2.03
Tim Clarke	Chief Executive	10.2.03
Mike Bramley	Managing Director, Pubs & Bars	15.4.03
George Fairweather	Independent Non-Executive Director	15.4.03
Tony Hughes	Managing Director, Restaurants	15.4.03
Karim Naffah	Finance Director	15.4.03
Sara Weller	Senior Independent Non-Executive Director	15.4.03
Sir Tim Lankester	Independent Non-Executive Director	16.5.03
Drummond Hall	Independent Non-Executive Director	30.7.04

Directors' biographical details are set out on pages 26 and 27 of the Annual Review and Summary Financial Statement 2004 and these include their main commitments outside the Company.

Mike Bramley and Roger Carr will retire by rotation and offer themselves for reappointment at the Annual General Meeting on 26 January 2005. Drummond Hall, having been appointed a Director during the year, will also retire and offer himself for reappointment. Details of the Executive Directors' service contracts are set out on page 17. The Chairman and the four independent Non-Executive Directors have letters of appointment.

### Chairman

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

During the year, he has been appointed as Chairman of Centrica plc, having previously been a non-executive director of that company. He has resigned from the Industrial Development Advisory Board of the Department of Trade & Industry and the CBI Council. The Board is satisfied that he is able to fulfil his commitment to the Company.

### Chief Executive

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

### Senior Independent Director

Sara Weller is the Senior Independent Non-Executive Director. Her responsibilities include being available to liaise with shareholders who have issues to raise. She meets annually with the Independent Non-Executive Directors, without the Chairman present, to review the performance of the Chairman, having taken account of the views of the Executive Directors.

### Committees

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

#### Executive Committee

The Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives as shown on page 27 of the Annual Review and Summary Financial Statement 2004.

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

The Committee monitors the financial, operational and customer service 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.

#### **Audit Committee**

The Audit Committee, which is chaired by George Fairweather, consists of the four independent Non-Executive Directors. The Chairman of the Board attends at the invitation of the Committee's Chairman.

Further details about the Committee are included in the Audit Committee Report on page 12.

#### **Remuneration Committee**

The Remuneration Committee, which is chaired by Sara Weller, comprises the four independent Non-Executive Directors. The Chairman of the Board attends by invitation of the Committee's Chairman.

Further details about the Committee are included in the Remuneration Report on page 14.

#### **Nomination Committee**

The Committee consists of the Chairman of the Board, who chairs the Committee, the four independent Non-Executive Directors and the Chief Executive. Its terms of reference provide that the Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board and also for succession planning. It met three times during the year to consider these matters, with all the then current members attending, except on one occasion when Sir Tim Lankester was unable to be present.

The Committee appointed external consultants (Ian Jones & Partners) to find candidates for the one directorship filled during the year. A candidate profile and objective selection criteria for that search were agreed.

#### **General Purposes Committee**

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

#### **Board evaluation**

The Board engaged external consultants, Spencer Stuart, to assist with a Board effectiveness review during the year. The Chairman and the Senior Independent Director provided a brief for the assessment of the Board and its Committees, which was effected through individual meetings with the Company Secretary and each Director. Topics covered included the overall impression of the Board and its effectiveness, organisation of the Board, Committee organisation, roles of the Board members, Board composition, Board involvement and communication with shareholders. Feedback was provided to the Board through a written report and presentation, which was discussed by the Board.

This report concluded that the Board functioned well and that the mix of skills and experience of Board members ensured that sound and balanced judgement was exercised in strategic assessment and decision taking. The Board will continue to critically review process and effectiveness in the year ahead.

The Chairman evaluates the individual performances of the Non-Executive Directors. The Senior Independent Director led a meeting of the Non-Executive Directors without the Chairman present to review the performance of the Chairman.

#### **Non-Executive Directors**

The Company has experienced independent Non-Executive Directors who represent a strong source of advice and judgement. In addition to the Chairman, who was independent on his appointment, there are four Non-Executive Directors, who the Board considers to be wholly independent as they have never been employed by or had a material business relationship with the Group; have no family ties with the Group's advisers, Directors or senior employees; do not hold cross directorships or have significant links with other Directors through involvement in other companies or bodies and do not represent a significant shareholder. Other than their fees which are disclosed on page 18, the Independent Non-Executive Directors received no remuneration from the Company. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

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

#### **Re-election of Directors**

The Company ensures that Directors submit themselves for re-election at least every three years. The proposals for reappointments at the 2005 AGM are set out on page 3 of the AGM Notice.

#### **Independent advice**

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

#### **Shareholder relations**

The Company has a programme of meetings with its major institutional shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Chairman and the Chief Executive report to the Board the views of major shareholders about the Company, and the Non-Executive Directors are available to major shareholders on request. Institutional investors and analysts are also invited to briefings by the Company after the announcement of its interim and final results. The content of these briefings is posted on the Company's website, [www.mbplc.com](http://www.mbplc.com), together with general information about the Company so as to be available to all shareholders.

The Annual General Meeting provides a useful interface with private shareholders, many of whom are also customers. The Chairmen of the Audit, Remuneration and Nomination Committees attend to answer questions.



## Audit Committee report

The Company's Audit Committee meets, as at 25 September 2004, the requirements of the revised UK Combined Code and the US Sarbanes-Oxley Act/New York Stock Exchange requirements, as applicable to non-US companies. A copy of the Committee's terms of reference is publicly available within the Investor section of the Company's website.

### Role of the Audit Committee

The Committee's principal responsibilities are to:

- review the Company's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management and the external Auditors any financial statements required under UK or US legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the Group Assurance function;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external Auditors, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external Auditors and the fees to be paid for that work along with the monitoring of the external Auditors' independence;

- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for the Chief Executive, the Finance Director, the Deputy Finance Director and all other members of the Executive Committee, which is consistent with the Company's overall statement of business ethics.

### Audit Committee composition

The Committee is chaired by George Fairweather who, as a Chartered Accountant and the finance director of a FTSE 100 company, has current and relevant financial experience and is considered to be the Committee's financial expert. The Committee's other members are Drummond Hall, Sir Tim Lankester and Sara Weller. The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board but, reflecting recommendations within the Smith guidance, Roger Carr resigned from the Audit Committee during the year and attends at the invitation of the Committee's Chairman. All of the Committee's members are Independent Non-Executive Directors as defined in both UK guidance and US legislation.

### Audit Committee meetings

The Committee meets at least four times a year. During 2003/04 five full meetings of the Committee were held, which all the then current Committee members attended.

### Audit Committee process

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

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

- Interim and full year financial results
- The scope and cost of the external audit
- Any non-audit work carried out by the Group's external Auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence
- The scope of the annual internal audit plan, the Internal Audit department's terms of reference and its resourcing
- The external Auditors' interim and full year reports
- Periodic internal control and assurance reports from the Internal Audit function
- The effectiveness of the external Auditors and consideration of their reappointment
- Periodic reports on any allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures
- The effectiveness of the Internal Audit function
- Management representations and waivers granted to the external Auditors
- Any major changes in the Group's internal controls
- The co-ordination of the internal and external audit functions
- The Group's framework for the identification and control of major risks
- The adoption of a code of ethics for the Executive Committee
- Corporate governance developments in the UK and the US
- Monitoring of the Group's International Financial Reporting Standard conversion exercise

- Overseeing the Group's Sarbanes-Oxley compliance work
- The disclosure controls and procedures operated by the Group
- Substantial litigation involving the Group
- The Committee's own terms of reference and its effectiveness.

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

Evaluations carried out by the Committee in the year have been performed with the assistance of the Director of Group Assurance. The Committee monitors these reviews and may consider the use of external advisers in the future.

During the year, the external Auditors' lead audit partner stood down for health reasons. The appointment of his replacement was overseen by the Audit Committee.

### External Auditors' independence

The Audit Committee has adopted a policy on the utilisation of the external Auditors for non-audit work that is in compliance with the requirements of the US Sarbanes-Oxley Act. The Auditors may carry out certain specified non-audit work, in areas that have been pre-approved by the Committee, up to a monetary limit of half the audit fee per transaction and subject to an annual total cap of no more than the audit fee. Any other work for which management wishes to utilise the external Auditors must be approved by the Committee.

**George Fairweather**, Chairman of the Audit Committee  
30 November 2004



## Remuneration report

This report has been prepared by the Remuneration Committee ('the Committee') and has been approved by the Board. It has been drawn up in accordance with the Combined Code on Corporate Governance, Schedule 7A to the Companies Act 1985 and the UKLA Listing Rules and will be put to shareholders for approval at the forthcoming Annual General Meeting.

### The Remuneration Committee

The Committee consists of the following independent Non-Executive Directors:

- Sara Weller (Chairman)
- George Fairweather
- Drummond Hall (from 30 July 2004)
- Sir Tim Lankester

During the year and reflecting the requirements of the Revised Code, Roger Carr, the Chairman of the Board, ceased to be a member of the Committee, although he attended its meetings at the invitation of its Chairman. Tim Clarke, the Chief Executive, also attended by invitation, but not on matters relating to his own remuneration.

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

During the year, the Committee has received external advice from Towers Perrin, benefits consultants, and Allen & Overy, the Company's general legal advisers. The Committee also took advice from Tim Clarke, the Chief Executive, Bronagh Kennedy, the Human Resources Director & General Counsel and Sheila Mellish, Head of Reward. None of these participated in discussions concerning their own remuneration. All of these advisers were originally appointed by the Company.

In July 2004, the Committee independently appointed and approved the terms of engagement of Towers Perrin to act as consultants to the Committee on the 2004 review of executive basic pay. Although Towers Perrin provides advice on senior executive reward matters to both the Committee

and the Company, the Committee is satisfied as to the independence of the advice it receives, but will continue to evaluate whether the arrangement remains appropriate.

The Committee is responsible for determining policy on remuneration for the Executive Directors, other members of the Executive Committee and senior executives. It determines the actual remuneration of the Executive Directors and reviews proposals in respect of other members of the Executive Committee taking account of percentage increases in reward across the Company. For the year under review, the total remuneration earned by those members of the Executive Committee who were not main Board directors is shown in the bands below:

No. of executives	£000
2	250 – 300
2	300 – 350
2	350 – 400

The full terms of reference of the Remuneration Committee can be found in the Investor section of the Company's website.

The Committee is expected to meet at least three times a year and in 2003/04, met four times. Each meeting was attended by all the then current members of the Committee, except for Sir Tim Lankester, who was unable to attend one of the meetings.

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

### Remuneration policy for Executive Directors

The following policy has applied throughout the year and will apply for the financial year 2005. For subsequent years, the Committee will review the policy and recommend changes as appropriate.

- Remuneration packages are designed to attract, retain and motivate Executive Directors of the highest calibre.
- The packages will be competitive within the leisure retailing industry and in those markets from which the Company recruits.



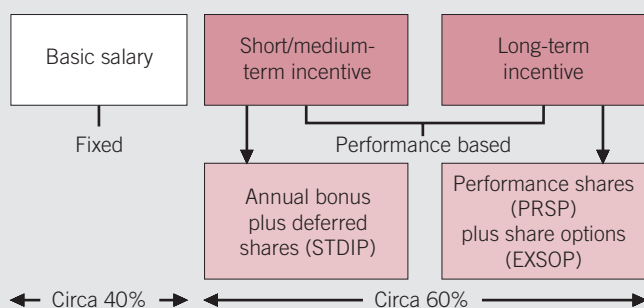
- In fixing remuneration, note will be taken of reward levels in the wider community and of the remuneration structure throughout the organisation.
- There will be an appropriate balance between fixed and variable risk reward. The latter will be linked to the performance of the individual and of the Group.
- Basic salary will normally be set at median market level.
- Using target or projected value calculations, performance related incentives for Executive Directors will equate to approximately 60% of total remuneration.
- Share and cash incentives will be designed so as to align the interests of Executive Directors with those of shareholders. For this purpose, Executive Directors are required to build and maintain a significant level of ownership of the Company's shares, which is two times salary, but three times salary for the Chief Executive. Shares arising from share schemes normally should not be sold until the minimum level of ownership has been satisfied.

### Policy on Non-Executive Directors

Non-Executive Directors, including the Chairman, have letters of appointment. Their appointment and subsequent reappointment is subject to election or re-election by shareholders. Non-Executive Directors are paid a basic fee with additional fees for membership of the Remuneration and Audit Committees and for chairing those committees. The fees are approved by the Board on the recommendation of the Executive Directors, based on a review of the fees paid in other companies of a similar size.

### Components of remuneration packages

The main components of Executive Directors' remuneration are:



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

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

### Basic salary

The policy is to set salary broadly in line with median market levels and it is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in comparable companies. By way of exception to the general policy, Karim Naffah, the Finance Director, receives a salary set at around the upper quartile for his position, to reflect personal value, background and experience. In setting salary levels, levels in the Group and in the wider employment market are also taken into account.

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

The average basic salary and short-term bonus of the Executive Directors during the year was £660,055 and the average per non-Board employee was £13,700. The ratio is therefore 1:48 (2003 1:43). The Board and the Remuneration Committee do not have a policy on this ratio, but aim to reward all employees fairly according to the nature of their role, their performance and market forces.

In the year under review, the average salary increase for members of the Executive Committee, which includes the Executive Directors, was 2.7%, whereas the average increase for other employees was 3.5%.

### Annual performance bonus

Challenging performance goals are set which must be achieved before a bonus becomes payable. The maximum bonus opportunity is normally 80% of salary of which, for 2004/05, 60% (2003/04 50%) is linked to earnings per share and 20% (2003/04 30%) to personal and Group business objectives.

The bonus is payable either in cash, or in shares under the Short Term Deferred Incentive Plan as set out below.

### Short Term Deferred Incentive Plan ('STDIP')

At the discretion of the Committee, the Executive Directors may receive all or part of their annual performance bonus in the Company's shares. To date, the Committee has determined that all the Executive Directors' bonuses be received in shares. A bonus award of shares earned in 2003/04 will be deferred for 12 months and, if the Director is in the Company's employment at the end of that period, matching shares may be awarded of up to 0.5 times the deferred shares. Bonus and matching shares are normally released in three equal tranches on the first, second and third anniversaries of the bonus award date, provided the Director remains in the Company's employment.

Consistent with the Committee's desire to see equity awards linked to performance, it is proposed to amend the STDIP so that for awards made in relation to the financial year 2004/05, any matching shares will be subject to the achievement of a performance condition, and a three year vesting period.

Subject to the approval of shareholders at the forthcoming AGM and in order to maintain the value and competitiveness of the plan to participants, it is proposed to increase the ratio of matching shares to bonus shares from 0.5:1 to 1:1. The Remuneration Committee has been independently advised that this will bring the plan into line with market practice. The performance condition for awards in relation to the financial year 2004/05 is expected to be based on earnings per share ('eps') growth, to emphasise the link between the interests of Directors and shareholders, and aligned with the measure applied under the Executive Share Option Plan. The Company's Auditors will review performance against the target. There will be no retesting of the performance measure.

### Executive Share Option Plan ('EXSOP')

At the discretion of the Committee, grants of EXSOP options will normally be made annually; grants are scaled according to seniority and for Executive Directors, the maximum value of shares over which options may be granted in any year is two times salary. In determining the level of grant, the Company

will take into account the level of awards made under the Performance Restricted Share Plan, see below.

The grant of options is restricted so that in each year the aggregate of (i) 25% of the market value of the ordinary shares over which an option is granted under EXSOP and (ii) 33% of the market value of the ordinary shares over which an award is made under the Performance Restricted Share Plan, will not exceed 80% of an employee's salary, taking the market value in each case as at the date of grant. These limits may only be exceeded in special circumstances which have not occurred to date.

A performance condition, set by the Committee, has to be met before options can be exercised. As stated by the Chairman of the Committee at the 2004 AGM, for options granted in 2004, the performance measure is that the Company's eps over the three year performance period (as adjusted for the 2003 share consolidation) must increase by at least 6 percentage points per annum on average over the growth in the UK Retail Prices Index ('RPI') before options can be exercised in full. Reduced exercises will be permitted for lower levels of eps growth, as follows:

If eps growth exceeds the growth in RPI by 5 percentage points per annum on average over the performance period, two-thirds of the ordinary shares under option will become exercisable. One-third of the ordinary shares under option will become exercisable for eps growth exceeding the RPI by at least 4 percentage points per annum on average over the performance period.

Eps is a measurement which reflects movement in shareholder value and the target set would mean a significant and challenging improvement in the Company's performance, if achieved. The Company's Auditors will review performance against the target.

If these performance targets are not met, the option lapses. Retesting is not permitted for options granted in 2004 and onwards.

#### Performance Restricted Share Plan ('PRSP')

The PRSP allows Executive Directors and eligible senior employees to receive awards of shares or cash subject to the satisfaction of a performance condition, set by the Committee, which is measured over a three year period.

For the cycle to September 2004, the award was measured by reference to the Company's Total Shareholder Return ('TSR') performance relative to that of a comparator group of 11 other companies over the same period. The Company finished in 11th position and no award was made.

For the 2002/05 and 2003/06 cycles, 50% of the award will be measured by reference to TSR performance against the comparator group, which at the date of award consisted of:

Mitchells & Butlers	Punch Taverns
Enterprise Inns	Regent Inns
Fuller, Smith & Turner	The Restaurant Group
Greene King	Whitbread
JD Wetherspoon	Wolverhampton & Dudley
Luminar	Yates

This group was selected because it consists of competitors to the Company. Since the Company's year end, Yates has de-listed and is no longer included in the comparator group.

For the 2002/05 cycle, if the Company finishes in first to sixth positions in the group an award will vest, graded between 100% of the TSR element of the award for first or second, to 20% for sixth position. Below sixth position, the award relating to TSR lapses.

For the 2003/06 cycle, if the Company finishes in first to fifth positions in the group an award will vest, graded between 100% of the TSR element of the award for first, to 20% for fifth position. Below fifth position the award relating to TSR lapses.

The vesting of the other 50% of the award will be based on the average amount by which the Company's cash return on capital employed ('CROCE') exceeds its weighted average cost of capital ('WACC') over the performance period. The award for this element of the performance measure will be graded so that if the amount by which the CROCE exceeds the WACC over the performance period is at least 4.5 percentage points, 100% of the CROCE element of the award will vest, whereas if the excess is 3 percentage points, 20% of the award will vest. In between 3 and 4.5 percentage points, the award will be graded on a straight line basis. Below 3 percentage points there will be no award in respect of this element.

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

Performance measurement under PRSP will be reviewed by the Company's Auditors.

#### Rolled over options

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

#### Other share plans

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

### Companies used for comparison

In assessing overall levels of pay and benefits, Mitchells & Butlers compares the packages offered by comparator companies. These companies are chosen by the Committee following advice from independent external consultants, having regard to:

- industry sector, to include direct competitors and the wider retail sector;
- size – turnover, profits, margins and the number of people employed;
- structure and complexity of the business.

The companies currently used for comparison are:

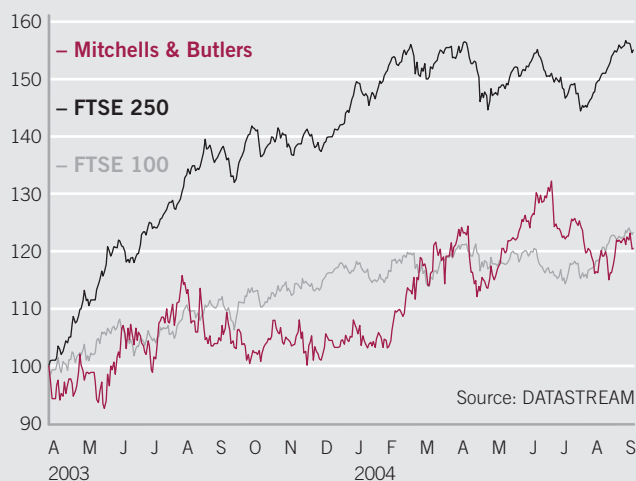
Allied Domecq	MyTravel
Avis	Rank Group
BAA	RHM
Eurotunnel	Signet
Gallagher	Somerfield
HMV	WH Smith
Imperial Tobacco	Whitbread
InterContinental Hotels Group	William Hill
John Lewis	Woolworths

### Performance graph – Total Shareholder Return

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

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

#### Mitchells & Butlers TSR v FTSE 100 & 250 15/4/03 – 25/9/04



### Directors' contracts

It is the Company's normal policy to provide Executive Directors with rolling 12 months contracts, which provide for 12 months notice from the Company and six months notice from the Director. Service contracts provide for summary termination in the event of gross misconduct. In other circumstances any severance payment would normally be based on a valuation of net pay and benefits for any unexpired notice period on the expectation that the

Director had made reasonable attempts to mitigate his loss. Benefits normally include membership of a pension scheme and a healthcare scheme and use of a company car. The Company is considering the introduction, for new appointees to the Board, of phased compensation payments on loss of office.

Director	Contract start date	Unexpired term*	Notice period	Compensation payable on early termination**
Mike Bramley	15.04.03	Indefinite	12 months	n/a
Tim Clarke	15.04.03	Indefinite	12 months	n/a
Tony Hughes	15.04.03	Indefinite	12 months	n/a
Karim Naffah	15.04.03	Indefinite	12 months	n/a

\*To normal retirement age (60).

\*\*No payments should normally be payable on termination, other than the salary and benefits due for the notice period and such entitlements under incentive plans that are consistent with the terms of such plans.

Non-Executive Directors do not have service contracts but operate under a letter of appointment that provides for their tenure of office to be reviewed when they are about to stand for re-election, which is every three years. In any event Non-Executive Directors cannot serve after the AGM following their 67th birthday. There is no notice period and no provision for termination payments. The dates of appointment of Non-Executive Directors are set out on page 10. The Chairman Roger Carr's term of appointment is expressed to run for three years from the demerger of the Company from Six Continents, which occurred on 15 April 2003.

### Policy regarding pensions

UK-based Executive Directors and senior employees participate on the same basis as other members in the Mitchells & Butlers Executive Pension Plan and, if appropriate, the Mitchells & Butlers Executive Top-Up Scheme. Executives in Germany, who do not participate in these plans, are entitled to participate in relevant local plans.

### Policy on external appointments

The Company recognises that its Directors may be invited to become non-executive directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one non-executive appointment, with the Company's prior approval, and as long as this is not likely to lead to conflicts of interest. Fees received by the Director may be retained. Tim Clarke ceased to be a non-executive director of Debenhams plc on 4 December 2003 and received £6,700 for that appointment for the period from 1 October to 4 December 2003. Subsequent to the year end, he has been appointed a non-executive director of Associated British Foods plc.

The rest of this Remuneration Report on pages 18 to 23 has been audited by Ernst & Young LLP.

## ▶ Remuneration report continued

### Directors' emoluments

	Basic salaries and fees £000	Annual performance bonus* £000	Benefits £000	Total emoluments (excluding pensions)	
				2004 £000	2003*** £000
<b>Executive Directors</b>					
Mike Bramley	334	201	17	552	245
Tim Clarke	509	383	24	916	371
Tony Hughes	334	251	23	608	241
Karim Naffah	359	270	15	644	257
<b>Non-Executive Directors</b>					
Roger Carr	199	–	8	207	97
George Fairweather	49	–	–	49	23
Drummond Hall**	7	–	–	7	–
Sir Tim Lankester	42	–	–	42	16
Sara Weller	49	–	–	49	23
Total 2004	1,882	1,105	87	3,074	
Total 2003***	848	379	46		1,273

\*Annual performance bonuses as described above for 2004 (and for 2003) were wholly deferred into shares under the terms of the STDIP.

\*\*Appointed 30 July 2004, his fees are paid to Dairy Crest Group plc, his employer.

\*\*\*For 2003, the year of the Company's demerger from Six Continents PLC, emoluments cover the period from appointment to the Board of Mitchells & Butlers plc. Roger Carr and Tim Clarke, who were directors of Six Continents PLC for part of that year, received emoluments, not included above, of £56,000 and £363,000 respectively from that company.

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

'Benefits' incorporate the value of any shares awarded under the Share Incentive Plan and all tax assessable benefits arising from employment with the Company which relate in the main to the provision of a company car and healthcare cover.

### Salary

As at 25 September and 30 November 2004 respectively, the basic annual salaries of Executive Directors were as shown below. Their normal annual salary review date is 1 October.

Director	25.9.04 £000	30.11.04 £000
Mike Bramley	335	350
Tim Clarke	510	520
Tony Hughes	335	350
Karim Naffah	360	370

## Annual performance bonus

The bonus for each Executive Director for 2003/04 was as follows:

Director	Maximum bonus achievable £000	Bonus awarded £000	Constituent elements				
			EPS target†		Group & personal objectives		
			£000	%*	£000	%*	%*
Mike Bramley	268	201	167	100	+	34	33
Tim Clarke	408	383	255	100	+	128	83
Tony Hughes	268	251	167	100	+	84	83
Karim Naffah	288	270	180	100	+	90	83

†The eps target was adjusted for the impact of the share consolidation on 2 December 2003 on the number of shares in issue.

\*The percentages show the proportion of that element of the bonus that was achieved.

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

- The Company's earnings per share performance; and
- Group and personal business objectives.
  - Group business objectives related to:
    - improvement in like-for-like sales;
    - achievement of refinancing, return of funds to shareholders and new cash flow target;
    - capital control on incremental investment and asset management;
    - customer service standards;
    - staff productivity; and
    - purchasing gains.
  - Personal business objectives related to the financial performance in the business areas for which the Director was responsible.

## Short Term Deferred Incentive Plan

The table below shows the maximum matching shares receivable if all of the Directors' 2004 annual performance bonuses are deferred into share awards.

Director	Ordinary share awards in respect of year to 27.9.03*	Market value on date of award £000	Year earned	First vesting date	Ordinary share awards in respect of year to 25.9.04**	Value of awards £000	Year earned	First vesting date	Total awards over ordinary shares at 25.9.04	Current market value £000**
Mike Bramley	17,343	40	2003	9.12.04	38,803	100	2004	7.12.05	56,146	145
Tim Clarke	26,682	61	2003	9.12.04	73,841	191	2004	7.12.05	100,523	260
Tony Hughes	17,343	40	2003	9.12.04	48,503	126	2004	7.12.05	65,846	171
Karim Naffah	18,678	43	2003	9.12.04	52,123	135	2004	7.12.05	70,801	183

\*Based on the share price on date of award – 229.92p.

\*\*Calculated at a share price of 259.00p as at 25 September 2004.

As part of the terms of demerger, the Company provided 105,495 shares on 13 December 2003 and agreed to provide 17,371 shares in December 2004 to Tim Clarke to meet the entitlements he had accrued under the Six Continents Special Deferred Incentive Plan for 2001/02 and 2002/03 to date of demerger respectively.

**Performance Restricted Share Plan ('PRSP')**

The PRSP was introduced on demerger initially to replace the Six Continents Long Term Incentive Plan for Mitchells & Butlers executives. Awards which vested in 2003 were paid in cash during the year. In 2004 there were three cycles of the plan in operation outlined below, the first of which was to replace participation in the final cycle of the Six Continents' plan.

- An eighteen months performance period to September 2004, where the performance measure related to the Company's total shareholder return against a group of eleven other comparator companies. The Company finished in eleventh position and no award was made.\*
- A thirty months performance period to September 2005, where the performance measures relate to the Company's total shareholder return performance and to its cash return on capital employed against its weighted average cost of capital. The combined maximum award from the two measures is equivalent to 90% of basic salary at the date of the award.
- A thirty-six months performance period to September 2006, where the performance measures relate to the Company's total shareholder return performance and to its cash return on capital employed against its weighted average cost of capital. The combined maximum award from the two measures is equivalent to 90% of basic salary at the date of the award.\*\*

Further details of the performance measures are set out on page 16.

The maximum potential pre-tax value of Directors' awards, at the date of grant, if performance targets are achieved, was:

<b>Director</b>	<b>Maximum potential awards at 28.9.03 £000</b>	<b>Lapsed 2004* £000</b>	<b>Granted 2006** £000</b>	<b>Maximum potential awards at 25.9.04 £000</b>
Mike Bramley	488	(195)	302	595
Tim Clarke	750	(300)	459	909
Tony Hughes	488	(195)	302	595
Karim Naffah	525	(210)	324	639

Notes:

The 2003 awards, disclosed in last year's Annual Report, were paid in cash on 10 December 2003. The gross amounts were: Mike Bramley – £98,000; Tim Clarke – £150,000; Tony Hughes – £98,000 and Karim Naffah – £105,000.

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

## Directors' pensions

The following information relates to the pension arrangements provided for Mike Bramley, Tim Clarke, Tony Hughes and Karim Naffah under the Defined Benefit Section of the Mitchells & Butlers Executive Pension Plan ('the Plan'), and in the cases of Tim Clarke, Tony Hughes and Karim Naffah under the unfunded Executive Top-Up Scheme ('MABETUS').

The Plan is a funded, Inland Revenue approved, occupational pension scheme with a final salary section of which these Directors are members. All Plan benefits

are subject to Inland Revenue limits. Where such limitation is due to the earnings cap, MABETUS is used to increase pension and death benefits to the level that would otherwise have applied. The Plan's main features applicable to the Executive Directors are:

- a normal pension age of 60;
- pension accrual of 1/30th of final pensionable salary for each year of pensionable service;
- life assurance cover of four times pensionable salary;
- pensions payable in the event of ill health; and
- spouse's and dependants' pensions on death.

Director	Years of pensionable service	Age at 25.9.04	Directors' contributions *	Transfer value of accrued pension		Increase in transfer value over year less Directors' contributions	Increase in accrued pension **	Increase in accrued pension ***	Accrued pension at 25.9.04 ****
				28.9.03	25.9.04				
			£	£	£	£	£ pa	£ pa	£ pa
Mike Bramley	24	53	15,100	2,054,200	2,609,000	539,500	31,400	26,800	195,900
Tim Clarke	14	47	15,100	2,022,800	2,368,900	331,000	19,400	13,400	236,700
Tony Hughes	9	56	14,900	1,081,600	1,426,900	330,400	17,800	15,700	92,500
Karim Naffah	13	41	15,100	733,400	944,800	196,300	20,100	17,100	125,600

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

\*\*The absolute increase in accrued pension during the year, including any increase for inflation.

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

\*\*\*\*Accrued pension is that which would be paid annually on retirement at 60, based on service to 25 September 2004.

Members of the Plan have the option to pay Additional Voluntary Contributions, subject to Inland Revenue limits, but members of MABETUS are unlikely to benefit by doing so; neither any such contributions, nor the resulting benefits, are included in the above table.

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

## Additional pension information

The following is additional information relating to Directors' pensions under the Plan and MABETUS.

### Dependants' pensions

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

On the death of a Director after payment of his pension commences, a widow's pension of two-thirds of the Director's full pension entitlement is payable; in addition, a child's pension of one-sixth of his full pension entitlement is payable for each of a maximum of two eligible children.

### Early retirement rights

After leaving the service of the Company, the member has the right to draw his accrued pension at any time after his 50th birthday, subject to a discount for early payment.

### Pension increases

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

### Other discretionary benefits

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

## Directors' options

Director	Ordinary shares under option			Weighted average option price	Option price
	25.9.04	Granted	28.9.03		
<b>Mike Bramley</b>					
		265,346			252.5p
A	97,704		97,704	214.47p	
B	346,277		346,277	272.93p	
C	562,146		296,800	234.81p	
Total	1,006,127	265,346	740,781	245.96p	
<b>Tim Clarke</b>					
		403,960			252.5p
A	250,245		250,245	213.70p	
B	727,074		727,074	280.76p	
C	870,003		466,043	234.01p	
Total	1,847,322	403,960	1,443,362	249.66p	
<b>Tony Hughes</b>					
		265,346			252.5p
A	144,189		144,189	214.47p	
B	409,127		409,127	280.07p	
C	567,619		302,273	234.18p	
Total	1,120,935	265,346	855,589	248.39p	
<b>Karim Naffah</b>					
		4,509			209.0p
		285,148			252.5p
A	437,302		437,302	195.89p	
B	281,977		281,977	279.87p	
C	609,287		319,630	234.60p	
Total	1,328,566	289,657	1,038,909	231.47p	

No Directors' options over Mitchells & Butlers plc shares lapsed or were exercised or varied during the year. No price was paid for the grant of any of the options.

Options granted during the year are exercisable under the Executive Share Option Plan (the performance condition for which is set out on page 16) or the Sharesave Plan.

Options granted under the Company's Executive Share Option Plan are exercisable between 27 May 2006 and 23 May 2014 subject to the achievement of performance conditions. Rolled over options became exercisable on demerger from Six Continents in April 2003 and will lapse on various dates up to October 2012. Rolled over options ceased to be subject to performance conditions on demerger. Sharesave options are exercisable between 1 October 2006 and 31 March 2010.

The above table excludes potential awards under the Performance Restricted Share Plan, which are shown on page 20.

Shares under option at 25 September 2004 are designated as:

- where the options are exercisable and the market price per share was above the option price at 25 September 2004;
- where the options are exercisable but the market price per share at 25 September 2004 was below the option price; and
- where the options are not yet exercisable and the market price was above the option price on 25 September 2004.

The market price per share on 25 September 2004 was 259p and the range during the year to 25 September 2004 was 220.25p to 283.75p per share.



<b>Directors' shareholdings</b>	<b>Ordinary shares of 7½p</b>	
	<b>25.9.04</b>	<b>28.9.03*</b>
<b>Executive Director</b>		
Mike Bramley	18,176	7,132
Tim Clarke	352,960	209,702
Tony Hughes	24,164	3,120
Karim Naffah	48,627	18,839
<b>Non-Executive Director</b>		
Roger Carr	1,067	1,067
George Fairweather	–	–
Drummond Hall	–	–†
Sir Tim Lankester	–	–
Sara Weller	2,200	–

\*Adjusted for the 12 for 17 share consolidation implemented on 2 December 2003.

†As at date of appointment.

The above shareholdings are all beneficial interests and include shares held on behalf of the Executive Directors by the Trustee of the Company's Share Incentive Plan and by the Trustees of the Six Continents Employee Profit Share Scheme. None of the Directors has a beneficial interest in the shares of any subsidiary or in debenture stocks of the Company or any subsidiary.

At 25 September 2004 the Executive Directors, as potential beneficiaries under the Company's Employee Benefit Trust ('the Trust') were technically deemed to be interested in 3,736,671 Mitchells & Butlers ordinary shares held in the Trust.

In the period from 26 September 2004 to 30 November 2004 there has been no change in the Directors' interests other than to the balance of shares held in the Trust, which is now 3,537,090 shares.

The Company's Register of Directors' Interests, which is open to inspection at the registered office, contains full details of Directors' shareholdings and share options.

**Approved by the Board, Sara Weller**

Chairman of the Remuneration Committee, 30 November 2004

# Unaudited pro forma group profit and loss account

for the 52 weeks ended 25 September 2004

The results for the 52 weeks ended 25 September 2004 are the actual results for the year excluding exceptional items.

	2004	2003
	£m	restated* £m
<b>Turnover</b>	<b>1,560</b>	1,504
Costs and overheads, less other income	<b>(1,275)</b>	(1,229)
<b>Operating profit and profit on ordinary activities before interest</b>	<b>285</b>	275
Finance charge	<b>(101)</b>	(76)
<b>Profit on ordinary activities before taxation</b>	<b>184</b>	199
Taxation	<b>(60)</b>	(64)
<b>Profit for the financial year</b>	<b>124</b>	135
<b>Earnings per ordinary share</b>	<b>22.2p</b>	18.4p

\*Restated on the adoption of the Amendment to FRS 5 (see note 1).

All activities relate to continuing operations.

The Mitchells & Butlers group was created on its separation from Six Continents on 15 April 2003. Significant changes were made to the financing structure of the Group on separation which resulted in the replacement of inter company balances owed to Six Continents with external debt. In addition, the Mitchells & Butlers group no longer benefited from the Six Continents group tax arrangements that were in place prior to the separation. The pro forma group profit and loss account therefore presents the Mitchells & Butlers group's results for the 52 weeks ended 27 September 2003 on the basis that the post separation financing and taxation structure had been in place since 1 October 2002. The pro forma group profit and loss account also excludes exceptional items, as set out in note 8 to these financial statements, for all periods presented. Pro forma earnings per share have been calculated by dividing the pro forma profit for the financial year of £124m (2003 £135m) by 559m (2003 735m), being the weighted average number of ordinary shares, excluding own shares, in issue during the year.

The Mitchells & Butlers pro forma group profit and loss account does not constitute a statutory profit and loss account within the meaning of Section 240 of the Companies Act 1985 and is unaudited. The audited statutory financial statements of the Mitchells & Butlers group for the 52 weeks ended 25 September 2004 are shown on pages 26 to 54.

## Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the report of the independent auditors set out on page 25, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss for the financial year.

Following discussions with the auditors, the Directors consider that in preparing the financial statements on pages 26 to 54 inclusive, the Company has used appropriate accounting

policies, applied in a consistent manner and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

# Report of the independent auditors

## **Auditors' report to the shareholders of Mitchells & Butlers plc**

We have audited the Group's financial statements for the 52 weeks ended 25 September 2004 which comprise the Group profit and loss account, Statement of total recognised group gains and losses, Note of historical cost group profits and losses, Reconciliation of movement in group shareholders' funds, Group balance sheet, Company balance sheet, Group cash flow statement and the related notes 1 to 33. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

## **Respective responsibilities of Directors and auditors**

The Directors are solely responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the statement of Directors' responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if the information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not.

We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Operating and Financial Review, Directors' Report, unaudited part of the Directors' Remuneration Report, Corporate Governance statement, Audit Committee Report and the Four Year Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 25 September 2004 and of the profit of the Group for the 52 weeks then ended, and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

**Ernst & Young LLP**, Registered Auditor, London  
30 November 2004

# Group profit and loss account

for the 52 weeks ended 25 September 2004

	notes	2004			2003 restated*		
		Before exceptional items £m	Exceptional items (see note 8) £m	Total £m	Before exceptional items £m	Exceptional items (see note 8) £m	Total £m
<b>Turnover</b>	3	<b>1,560</b>	–	<b>1,560</b>	1,504	–	1,504
Costs and overheads, less other income	4	<b>(1,275)</b>	<b>(2)</b>	<b>(1,277)</b>	(1,229)	(5)	(1,234)
<b>Operating profit</b>	3	<b>285</b>	<b>(2)</b>	<b>283</b>	275	(5)	270
Profit on disposal of fixed assets	8	–	<b>2</b>	<b>2</b>	–	–	–
Separation costs	8	–	–	–	–	(42)	(42)
<b>Profit on ordinary activities before interest</b>		<b>285</b>	–	<b>285</b>	275	(47)	228
Net interest payable and similar charges	9	<b>(101)</b>	<b>(2)</b>	<b>(103)</b>	(55)	(8)	(63)
<b>Profit on ordinary activities before taxation</b>		<b>184</b>	<b>(2)</b>	<b>182</b>	220	(55)	165
Tax on profit on ordinary activities	10	<b>(60)</b>	<b>3</b>	<b>(57)</b>	(71)	31	(40)
<b>Earnings available for shareholders</b>		<b>124</b>	<b>1</b>	<b>125</b>	149	(24)	125
Dividends on equity shares	11	<b>(550)</b>	–	<b>(550)</b>	(29)	–	(29)
<b>Retained (loss)/profit for the financial year</b>		<b>(426)</b>	<b>1</b>	<b>(425)</b>	120	(24)	96
<b>Earnings per ordinary share:</b>	12						
Basic		–	–	<b>22.4p</b>	–	–	17.0p
Diluted		–	–	<b>22.2p</b>	–	–	17.0p
Adjusted		<b>22.2p</b>	–	–	20.3p	–	–

\*Restated on the adoption of the Amendment to FRS 5 (see note 1).

All activities relate to continuing operations.

The notes on pages 30 to 54 form an integral part of these financial statements.

## Statement of total recognised group gains and losses

for the 52 weeks ended 25 September 2004

	2004 £m	2003 £m
Earnings available for shareholders	125	125
Exchange differences arising on foreign currency net investments	(1)	7
<b>Total recognised gains for the year</b>	<b>124</b>	<b>132</b>

## Note of historical cost group profits and losses

for the 52 weeks ended 25 September 2004

	2004 £m	2003 £m
Reported profit on ordinary activities before taxation	182	165
Realisation of revaluation gains of previous periods	2	1
<b>Historical cost profit on ordinary activities before taxation</b>	<b>184</b>	<b>166</b>
<b>Historical cost (loss)/profit retained for the financial year</b>	<b>(423)</b>	<b>97</b>

## Reconciliation of movement in group shareholders' funds

for the 52 weeks ended 25 September 2004

	2004 £m	2003 £m
<b>Total recognised gains for the year</b>	<b>124</b>	<b>132</b>
Dividends	(550)	(29)
Issue of ordinary shares	8	4
Purchase of own shares by employee share trusts	(12)	–
Proceeds on release of own shares by employee share trusts	1	–
Credit in respect of employee share schemes	7	–
Funding with Six Continents group	–	184
Arising from separation transaction	–	(702)
<b>Net decrease in shareholders' funds</b>	<b>(422)</b>	<b>(411)</b>
Opening shareholders' funds	2,064	2,475
<b>Closing shareholders' funds</b>	<b>1,642</b>	<b>2,064</b>

The notes on pages 30 to 54 form an integral part of these financial statements.

# Balance sheets

25 September 2004

	notes	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
<b>Fixed assets</b>					
Intangible assets	13	10	11	–	–
Tangible assets	14	3,509	3,522	–	–
Investments	15	–	–	1,740	1,743
		<b>3,519</b>	3,533	<b>1,740</b>	1,743
<b>Current assets</b>					
Stocks	16	43	43	–	–
Debtors	17	222	197	280	597
Amounts falling due within one year		82	88	140	597
Amounts falling due after more than one year		140	109	140	–
Investments		144	3	77	1
Cash at bank and in hand		81	4	66	–
		<b>490</b>	247	<b>423</b>	598
Creditors: amounts falling due within one year	18	(326)	(508)	(1,596)	(358)
<b>Net current assets/(liabilities)</b>		<b>164</b>	(261)	<b>(1,173)</b>	240
<b>Total assets less current liabilities</b>					
		<b>3,683</b>	3,272	<b>567</b>	1,983
Creditors: amounts falling due after more than one year	19	(1,822)	(1,001)	–	(1,000)
Provisions for liabilities and charges		(219)	(207)	(34)	–
Deferred taxation	22	(217)	(203)	(34)	–
Other provisions for liabilities and charges	23	(2)	(4)	–	–
<b>Net assets</b>		<b>1,642</b>	2,064	<b>533</b>	983
<b>Capital and reserves</b>					
Called up share capital	24, 26	37	37	37	37
Share premium account	26	12	4	12	4
Revaluation reserve	26	339	341	–	–
Other reserve	26	–	–	45	–
Profit and loss account reserve	26	1,254	1,682	439	942
<b>Equity shareholders' funds</b>		<b>1,642</b>	2,064	<b>533</b>	983

Signed on behalf of the Board, **Tim Clarke, Karim Naffah**

30 November 2004

The notes on pages 30 to 54 form an integral part of these financial statements.

# Group cash flow statement

for the 52 weeks ended 25 September 2004

	notes	2004 £m	2003 £m
<b>Net cash inflow from operating activities</b>			
Before separation costs		379	342
Separation costs paid		(1)	(36)
	27	378	306
<b>Returns on investments and servicing of finance</b>			
Interest paid		(107)	(51)
Issue costs paid in respect of securitised debt		(22)	(1)
Facility fees paid		–	(15)
Interest received		9	2
		(120)	(65)
<b>Taxation</b>			
UK corporation tax paid		(34)	(44)
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(150)	(151)
Sale of tangible fixed assets		51	48
		(99)	(103)
<b>Equity dividends paid</b>			
Final dividend for 2002/03		(29)	–
Normal interim dividend for 2003/04		(15)	–
Special interim dividend for 2003/04		(501)	–
		(545)	–
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>		<b>(420)</b>	<b>94</b>
<b>Management of liquid resources</b>			
Increase in short-term deposits and investments		(141)	(1)
<b>Financing</b>			
Issue of ordinary share capital		8	4
Purchase of own shares by employee share trusts		(12)	–
Proceeds on release of shares by employee share trusts		1	–
Proceeds from issue of securitised debt		1,900	–
Repayments of principal in respect of securitised debt		(28)	–
Borrowings drawn down under syndicated loan facility		25	1,350
Borrowings repaid in respect of syndicated loan facility		(1,243)	(132)
Repayment of amounts due to Six Continents group		–	(831)
Net funding flows with Six Continents group		–	193
Cash payment to former Six Continents PLC shareholders		–	(702)
		651	(118)
<b>Increase/(decrease) in cash and overdrafts</b>		<b>29</b>	<b>(25)</b>

The notes on pages 30 to 54 form an integral part of these financial statements.

# Notes to the financial statements

## 1. Accounting policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets. They comply with applicable accounting standards in the United Kingdom, including the Amendment to FRS 5 'Reporting the substance of transactions: Revenue recognition' [Application Note G] and UITF 38 'Accounting for ESOP Trusts', both of which apply for the first time this year.

### Amendment to FRS 5 'Reporting the substance of transactions: Revenue recognition' [Application Note G]

Application Note G has required the Group to change its accounting policy in respect of turnover so that it is now recorded net of coupons and staff discounts. Previously, coupons and staff discounts were treated as other external charges. Prior year comparatives have been restated accordingly. The effect has been to decrease the Group's reported turnover and other external charges for the 52 weeks ended 25 September 2004 by £12m (2003 £9m) with no impact on reported profits.

### UITF 38 'Accounting for ESOP Trusts'

UITF 38 requires an entity's own shares held in employee share trusts to be deducted from shareholders' funds rather than being shown as an asset. The implementation of UITF 38 has resulted in own shares of £11m being deducted from shareholders' funds at 25 September 2004 with no restatement of prior year comparatives.

### Basis of consolidation

The Group's financial statements include the results of Mitchells & Butlers plc and all of its subsidiaries for the 52 week period ended 25 September 2004. The comparative period is for the 52 week period ended 27 September 2003. The respective balance sheets have been drawn up to 25 September 2004 and 27 September 2003.

### Merger accounting

Mitchells & Butlers plc was incorporated on 2 October 2002. On 15 April 2003, its ordinary shares were listed on the London Stock Exchange following the separation of the Group's leisure retailing activities from Six Continents PLC. In order to present the results of the Group on a meaningful basis, the financial statements for the 52 weeks ended 27 September 2003 were prepared under merger accounting principles to include the results and cash flows of those companies that comprised the Mitchells & Butlers group following separation as if the Group had been in existence since 1 October 2001.

### Fixed assets and depreciation

#### Goodwill

Any excess of purchase consideration for an acquired business over the fair value attributed to its separately identifiable assets and liabilities represents goodwill. Goodwill is capitalised as an intangible asset. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. Goodwill denominated in foreign currencies is translated into sterling at each balance sheet date and any movements are accounted for as set out under 'foreign currencies'. On disposal of a business,

any goodwill relating to the business and previously eliminated against reserves is taken into account in determining the profit or loss on disposal.

#### Tangible assets

Properties are stated at cost, or valuation, less depreciation. All other fixed assets are stated at cost less depreciation. When implementing FRS 15 'Tangible Fixed Assets' in the year to 30 September 2000, the Group did not adopt a policy of revaluing properties. The transitional rules of FRS 15 were applied so that the carrying values of properties include an element resulting from previous valuations.

#### Revaluation

Surpluses or deficits arising from previous professional valuations of properties, realised on the disposal of an asset, are transferred from the revaluation reserve to the profit and loss account reserve.

#### Impairment

Any impairment arising on an income-generating unit, other than an impairment which represents a consumption of economic benefits, is eliminated against any specific revaluation reserve relating to the impaired asset in that income-generating unit with any excess being charged to the profit and loss account.

#### Depreciation and amortisation

Goodwill is amortised over its estimated useful life, generally 20 years.

Freehold land is not depreciated.

Freehold and long leasehold properties are depreciated over 50 years from the date of acquisition to their estimated residual value. Leasehold properties are depreciated over the unexpired term of the lease when less than 50 years.

The cost of plant, machinery, fixtures, fittings, tools and equipment is spread by equal instalments over the estimated useful lives of the relevant assets, namely:

Equipment in retail outlets	3-25 years
Information technology equipment	3-7 years
Vehicles	4-5 years
Plant and machinery	4-20 years

All depreciation and amortisation is charged on a straight line basis.

#### Fixed asset investments

The Company's investments in group undertakings are held at cost less provision for permanent diminution in value. Investments in overseas undertakings are denominated in foreign currencies and exchange differences arising on their retranslation are taken directly to reserves along with any exchange arising on foreign currency borrowings hedging those investments.

#### Deferred taxation

Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial



## 1. Accounting policies continued

statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas companies in the absence of any commitment by the company to make the distribution.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Turnover

Turnover represents sales (excluding VAT and similar taxes, coupons and staff discounts) of goods and services provided in the normal course of business.

Turnover primarily comprises food and beverage sales which are normally recognised and settled at the time of sale.

### Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

### Pensions

The Group has continued to account for pensions in accordance with SSAP 24 'Accounting for pension costs'. In respect of the Group's defined benefit arrangements, the regular cost of providing pensions to current employees is charged to the profit and loss account over the average expected service life of those employees. Variations in regular pension costs are amortised over the average expected future service life of current employees on a straight line basis. Accumulated differences between the amount charged to the profit and loss account and the payments made to the pension plans are treated as either prepayments or creditors in the balance sheet. In respect of the Group's defined contribution arrangements, the charge against profits is equal to the amount of contributions payable. The additional disclosures required by the transitional arrangements of FRS 17 'Retirement Benefits' are given in note 7 to the accounts. With effect from 26 September 2004, the Group intends to adopt FRS 17 in full.

### Stocks

Stocks are stated at the lower of cost and net realisable value.

### Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date or, where appropriate, the rates of exchange fixed under the terms of the relevant transactions.

The results of overseas operations are translated into sterling at weighted average rates of exchange for the period. Exchange differences arising from the retranslation of opening net assets denominated in foreign currencies and foreign currency borrowings used to hedge those assets are taken directly to reserves. All other exchange differences are taken to the profit and loss account.

### Debt instruments and derivatives

Debt instruments, such as secured loan notes, are stated initially at the amount of the proceeds, net of issue costs. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated to periods over the term of the debt at a constant rate on the carrying amount. The amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period.

Amounts payable and receivable in respect of derivative financial instruments that hedge the interest rate exposures attached to the debt are accounted for on an accruals basis and treated as part of the finance cost.

### Share based compensation

The cost of share awards, being the difference between the market value of the shares on the date of grant of the award and the amount of consideration the participants may be required to pay for the shares, is charged to the profit and loss account over the performance period attached to the award. As permitted by UITF 17 'Employee Share Schemes', no charge is made in respect of the Company's Sharesave plan. The credit entry for the charge to the profit and loss account is reported in the reconciliation of movement in shareholders' funds.

Own shares held by the Company's employee share trusts for the purpose of fulfilling obligations in respect of the Group's employee share plans are deducted from shareholders' funds in the Group and Company balance sheets.

### Exceptional items

Exceptional items are those which fall within the ordinary activities of the Group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit, or interest payable, unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring (separation costs) or profits or losses on the disposal of fixed assets, other than marginal adjustments to depreciation previously charged. In these cases, disclosure is made on the face of the profit and loss account after operating profit. Exceptional items and the tax thereon are excluded from the calculation of adjusted earnings per share.

### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results can differ from those estimates. Estimates are used when accounting for items such as depreciation and amortisation, asset impairments and pensions.

## 2. Exchange rates

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.48 (2003 £1 = €1.48) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.47 (2003 £1 = €1.44).

## 3. Segmental analysis

The Group has two main retail operating segments: Pubs & Bars, focusing on drink and entertainment-led sites, and Restaurants, focusing on food and accommodation-led sites. The other Group activity is property development which is undertaken by Standard Commercial Property Developments ('SCPD'). Substantially all of the Group's business is conducted in the United Kingdom.

	Turnover		Profit		Net operating assets	
	2004	2003 restated*	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m
Pubs & Bars	913	873	180	177	2,106	2,141
Restaurants	641	614	104	96	1,320	1,314
Retail	1,554	1,487	284	273	3,426	3,455
SCPD	6	17	1	2	19	25
	<b>1,560</b>	<b>1,504</b>	<b>285</b>	<b>275</b>	<b>3,445</b>	<b>3,480</b>
Exceptional items			(2)	(55)		
Net interest payable (excluding exceptional interest charge)			(101)	(55)		
Profit before taxation			<b>182</b>	<b>165</b>		

\*Restated on the adoption of the Amendment to FRS 5 (see note 1).

Included within exceptional items (see note 8) is a profit on the disposal of fixed assets of £2m (2003 £nil) all of which relates to Pubs & Bars. Due to the nature of the other exceptional items, it is not possible to provide a meaningful allocation of the costs to the operating segments.

	2004 £m	2003 £m
<b>Net operating assets reconciliation</b>		
Net assets	1,642	2,064
Net debt	1,632	1,228
Corporate taxation	59	50
Deferred taxation	217	203
Pension prepayment	(140)	(98)
Proposed dividend	34	29
Balances relating to exceptional items	1	4
	<b>3,445</b>	<b>3,480</b>

## 4. Costs and overheads, less other income

	2004 £m	2003 restated* £m
Raw materials and consumables	406	385
Changes in stocks of finished goods and work in progress	–	6
Staff costs (see note 6)	402	385
Depreciation of tangible fixed assets	107	98
Amortisation of goodwill	1	1
Hire of plant and machinery	31	31
Property rentals	45	45
Other external charges	285	283
	<b>1,277</b>	<b>1,234</b>

\*Restated on the adoption of the Amendment to FRS 5 (see note 1).

Operating exceptional costs of £2m (2003 £5m) are included in 'Other external charges'.

## 5. Auditors' remuneration

Auditors' remuneration paid to Ernst & Young LLP was:

	2004 £m	2003 £m
Audit fees	0.4	0.4
Audit related fees – securitisation	0.2	0.1
– separation and bid defence	–	3.4
Tax services	–	0.1
	<b>0.6</b>	<b>4.0</b>

Substantially all remuneration was paid in the UK. The fees paid in respect of the securitisation have been accounted for as issue costs of the secured loan notes described in note 20. The separation and bid defence costs were recharged from Six Continents PLC during 2003 and charged to exceptional items (see note 8).

## 6. Employees and directors

	2004 £m	2003 £m
<b>Costs</b>		
Wages and salaries	370	353
Social security costs	29	27
Pensions (note 7)	3	5
	<b>402</b>	<b>385</b>

	Number	Number
<b>Average number of employees, including part-time employees</b>		
Retail	37,200	37,549
SCPD	7	7
	<b>37,207</b>	<b>37,556</b>

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in shares, is given in the Remuneration Report on pages 14 to 23.

## 7. Pensions

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan ('MABPP') and the Mitchells & Butlers Executive Pension Plan ('MABEPP'). The defined benefit sections of the plans closed to new entrants during 2002 with new members provided with defined contribution arrangements. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

On 1 April 2003, Mitchells & Butlers Retail Limited became the sponsoring employer for the former Six Continents Pension Plan and Six Continents Executive Pension Plan, after the transfer of obligations and related assets to newly created InterContinental Hotels Group pension schemes. The Six Continents Pension Plan and Six Continents Executive Pension Plan were subsequently renamed the Mitchells & Butlers Pension Plan and Mitchells & Butlers Executive Pension Plan respectively. Under the principles of merger accounting, the Mitchells & Butlers element of the Six Continents PLC pension plans is reflected in these financial statements for the periods prior to 1 April 2003.

On 6 November 2003, Mitchells & Butlers plc became the sponsoring employer of the pension plans resulting in the recognition of the Group's SSAP 24 prepayment and related reserve (see note 26) in the Company.

In the 52 weeks ended 25 September 2004, the Group made regular contributions to the pension plans of £4m and additional contributions of £40m. In 2003, the regular contributions were £10m, including £5m prepaid for the 52 weeks ended 25 September 2004, and additional contributions of £27m were paid. Proposed employer contribution rates to the defined benefit arrangements for 2004/05 are 16.5% for the MABPP and 34.0% for the MABEPP. It has also been agreed that further additional contributions of £40m will be paid over the next three years, in addition to the remaining £20m under the agreement reached at the time of the securitisation. £10m was paid on 15 October 2004 with a further payment of £20m planned for later in 2004/05.

## 7. Pensions continued

The Group has continued to account for pensions in accordance with SSAP 24 and provide the transitional disclosures required by FRS 17 in the notes to the financial statements. With effect from 26 September 2004, the Group intends to adopt FRS 17 in full.

### SSAP 24

The profit and loss account charge is analysed as follows:

	2004 £m	2003 £m
Regular cost	11	12
Variations from regular cost	(3)	(3)
Notional interest on prepayment	(6)	(4)
Cost of defined benefit arrangements	2	5
Cost of defined contribution arrangements	1	–
	<b>3</b>	<b>5</b>

Pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. They reflect the 31 March 2002 actuarial valuations of the Six Continents PLC pension plans. The significant assumptions in these valuations were that wages and salaries increase on average by 4% per annum, the long-term return on assets is 6.3% per annum, and pensions increase by 2.5% per annum. The average expected remaining service life of current employees is 13 years. At 31 March 2002, the market value of the combined assets of the Six Continents PLC pension plans was £1,187m and the value of the assets was sufficient to cover 100% of the benefits that had accrued to members after allowing for expected increases in earnings. Actuarial valuations as at 31 March 2004 are in the process of being finalised. Initial results reveal that experience has been adverse since 2002 and that the pension plans were in deficit by £167m at 31 March 2004.

### FRS 17 disclosures

The valuations used for FRS 17 disclosures are based on the initial results of the full actuarial valuations carried out at 31 March 2004 updated by independent qualified actuaries to 25 September 2004. Scheme assets are stated at market value at 25 September 2004 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal assumptions used by the actuaries to determine the liabilities at the balance sheet date on an FRS 17 basis were:

	2004	2003	2002
Wages and salaries increases	4.3%	4.2%	3.8%
Pensions increases	2.8%	2.7%	2.3%
Discount rate	5.5%	5.3%	5.5%
Inflation rate	2.8%	2.7%	2.3%

The combined assets of the MABPP and MABEPP and the expected rates of return at the balance sheet date were:

	2004		2003		2002	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	8.0	460	8.0	396	8.0	364
Bonds	4.9	373	4.9	355	4.7	285
Property	8.0	82	8.0	74	8.0	66
Total market value of assets		915		825		715
Present value of scheme liabilities		(1,088)		(1,068)		(913)
Deficit in the schemes		(173)		(243)		(198)
Related deferred tax asset		59		73		59
Net pension liability		(114)		(170)		(139)

## 7. Pensions continued

	2004 £m	2003 £m
Movement in the deficit:		
At 28 September 2003	(243)	(198)
Current service cost	(14)	(13)
Past service cost	–	(1)
Contributions	44	42
Finance income/(charge)	1	(2)
Actuarial gain/(loss)	39	(71)
At 25 September 2004	(173)	(243)

If FRS 17 had been recognised in the financial statements, the effect in respect of the defined benefit arrangements would have been as follows:

	2004 £m	2003 £m
Operating profit charge:		
Current service cost	14	13
Past service cost	–	1
	14	14

	2004 £m	2003 £m
Finance income/(charge):		
Expected return on pension scheme assets	57	48
Interest on pension scheme liabilities	(56)	(50)
	1	(2)

	2004 £m	2003 £m
Actuarial gain/(loss) recognised in the Statement of Total Recognised Group Gains and Losses (STRGL):		
Actual return less expected return on pension scheme assets	27	39
Experience gains and losses arising on the scheme liabilities	20	(11)
Changes in assumptions underlying the present value of the scheme liabilities	(8)	(99)
	39	(71)

	2004	2003	2002
History of experience gains and losses:			
Difference between the expected and actual return on scheme assets			
Amount (£m)	27	39	(124)
Percentage of scheme assets	3%	5%	(17)%
Experience gains and losses on scheme liabilities			
Amount (£m)	20	(11)	(23)
Percentage of the present value of the scheme liabilities	2%	(1)%	(3)%
Total amount recognised in the STRGL			
Amount (£m)	39	(71)	(228)
Percentage of the present value of the scheme liabilities	4%	(7)%	(25)%

	2004		2003	
	Net assets £m	Profit and loss account reserve £m	Net assets £m	Profit and loss account reserve £m
Net assets and reserves reconciliation:				
As reported	1,642	1,254	2,064	1,682
Less: FRS 17 net pension liability	(114)	(114)	(170)	(170)
SSAP 24 pension prepayment (net of deferred tax)	(105)	(105)	(69)	(69)
Restated for FRS 17	1,423	1,035	1,825	1,443

## 8. Exceptional items

	notes	2004 £m	2003 £m
<b>Operating exceptional items</b>			
Securitisation costs	a	(2)	(4)
Abortive acquisition costs	b	–	(1)
Total operating exceptional items		(2)	(5)
<b>Non-operating exceptional items</b>			
Profit on disposal of fixed assets		2	–
Separation costs	c	–	(42)
Total non-operating exceptional items		2	(42)
<b>Exceptional interest charge</b>			
Total exceptional items before tax	d	(2)	(8)
Tax credit on above items		3	9
<b>Exceptional tax credit</b>			
Total exceptional items after tax	e	1	(24)

a Securitisation costs relate to operating expenses incurred in relation to the securitisation of the Group's UK pubs and restaurants business (see note 20).

b Abortive acquisition costs were incurred in respect of the Scottish & Newcastle retail business.

c Separation costs related to the costs of separating the Group's operations from the hotels and soft drinks businesses of Six Continents PLC. The cost includes external advisers' fees, bid defence costs and various other costs directly related to the separation.

d The exceptional interest charge arises from the acceleration of facility fee amortisation in respect of the borrowing facilities which were repaid on securitisation.

e The exceptional tax credit arose in respect of group relief received from the Six Continents group.

All exceptional items relate to continuing operations.

Total exceptional items after tax are excluded from the calculation of adjusted earnings per share (see note 12).

## 9. Net interest payable and similar charges

	2004			2003		
	Before exceptional items £m	Exceptional items (see note 8) £m	Total £m	Before exceptional items £m	Exceptional items (see note 8) £m	Total £m
<b>Interest payable and similar charges</b>						
Securitised debt	100	–	100	–	–	–
Bank overdrafts and loans	10	2	12	33	8	41
Six Continents group	–	–	–	24	–	24
	110	2	112	57	8	65
<b>Interest receivable</b>	(9)	–	(9)	(2)	–	(2)
Net interest payable and similar charges	101	2	103	55	8	63

Interest receivable includes £nil (2003 £1m) from the Six Continents group.

## 10. Tax on profit on ordinary activities

	2004			2003		
	Before exceptional items £m	Exceptional items (see note 8) £m	Total £m	Before exceptional items £m	Exceptional items (see note 8) £m	Total £m
<b>Tax charge</b>						
UK corporation tax at 30% (2003 30%)						
Current year	45	–	45	60	(24)	36
Prior years	(2)	–	(2)	–	–	–
Total current tax	43	–	43	60	(24)	36
Deferred tax						
Origination and reversal of timing differences	18	(3)	15	10	(7)	3
Prior years	(1)	–	(1)	1	–	1
Total deferred tax	17	(3)	14	11	(7)	4
Tax on profit on ordinary activities	60	(3)	57	71	(31)	40
Further analysed as tax relating to:						
Profit before exceptional items	60	–	60	71	–	71
Exceptional items (see note 8): Operating	–	–	–	–	(1)	(1)
Non-operating	–	(2)	(2)	–	(6)	(6)
Interest	–	(1)	(1)	–	(2)	(2)
Tax credit	–	–	–	–	(22)	(22)
	60	(3)	57	71	(31)	40

	2004 %	2003 %
<b>Tax reconciliation</b>		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	3.7	1.2
Capital allowances in excess of depreciation	(6.9)	(4.7)
Other timing differences	(3.1)	0.6
Overseas losses not utilised	0.3	(0.6)
Adjustment to tax charge in respect of prior years	(0.9)	–
Exceptional items	0.5	(4.7)
Effective current tax rate	23.6	21.8
Effective current tax rate before exceptional items	23.4	27.3

### Factors which may affect future tax charges

The key factors which may affect future tax charges include continuing capital expenditure, the availability of accelerated tax depreciation and changes in tax legislation.

## 11. Dividends

	2004 £m	2003 £m
Special interim dividend for 2003/04 (68p per 5p ordinary share)	501	–
Normal interim dividend for 2003/04 (2.85p per 7½p ordinary share)	15	–
Proposed final dividend for 2003/04 (6.65p per 7½p ordinary share)	34	–
Final dividend for 2002/03 (5.65p per 7½p ordinary share)	–	29
	<b>550</b>	<b>29</b>

A special interim dividend for the 52 weeks ended 25 September 2004 of 68p per 5p ordinary share was paid to shareholders on 8 December 2003 at a total cost of £501m. In connection with the special dividend, a share consolidation was approved by shareholders at an Extraordinary General Meeting held on 1 December 2003 and then implemented on 2 December 2003. The share consolidation resulted in the issue of 12 new ordinary shares of 7½p each for every 17 existing ordinary shares of 5p each.

The proposed final dividend, if approved by shareholders at the forthcoming AGM, will be paid on 31 January 2005 to shareholders registered on 10 December 2004.

## 12. Earnings per share

Basic earnings per share have been calculated by dividing the earnings available for shareholders of £125m (2003 £125m) by 559m (2003 735m), being the weighted average number of ordinary shares, excluding own shares, in issue during the year.

Diluted earnings per share have been calculated by adjusting basic earnings per share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding under the Group's share option schemes. The resulting weighted average number of ordinary shares is 563m (2003 736m).

In arriving at the weighted average number of shares for the comparative period, it has been assumed that the ordinary shares of Mitchells & Butlers plc in issue on 15 April 2003 following separation from Six Continents of 734m was the number of shares in issue prior to separation.

As explained in note 11, in December 2003 the Company combined the payment of a special dividend of 68p per 5p ordinary share with a consolidation of its share capital. These transactions were designed to have the same overall commercial effect, in terms of net assets, earnings and number of shares, as a buy back of shares at fair value. Accordingly, earnings per share for prior periods have not been restated.

Adjusted earnings per ordinary share are calculated as follows:

	notes	2004 pence per ordinary share	2003 pence per ordinary share
Basic earnings		22.4	17.0
Exceptional items, less tax thereon	8, 10	(0.2)	3.3
Adjusted earnings		<b>22.2</b>	<b>20.3</b>

Adjusted earnings per share are disclosed in order to show performance for the 52 weeks ended 25 September 2004 undistorted by exceptional items and thereby give shareholders a clearer understanding of the trading performance of the Group. However, due to the significant changes made to the financing structure of the Group on separation from Six Continents on 15 April 2003, adjusted earnings per share above does not give a true indication of the underlying performance of the Group in the comparative period. Pro forma earnings per share, which adjusts for the changes in financing structure in the comparative period, is therefore presented on page 24 of the Annual Report and Financial Statements.



### 13. Intangible fixed assets

Group	Goodwill £m
<b>Cost</b>	
At 28 September 2003 and 25 September 2004	15
<b>Amortisation</b>	
At 28 September 2003	4
Provided during the year	1
At 25 September 2004	5
<b>Net book value</b>	
At 25 September 2004	10
At 27 September 2003	11

Goodwill is being amortised over its useful economic life, which is considered to be a 20 year period.

### 14. Tangible fixed assets

Group	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
<b>Cost or valuation</b>			
At 28 September 2003	2,814	933	3,747
Additions	67	83	150
Disposals	(37)	(70)	(107)
Exchange	–	(1)	(1)
At 25 September 2004	<b>2,844</b>	<b>945</b>	<b>3,789</b>
<b>Depreciation</b>			
At 28 September 2003	54	171	225
Provided during the year	17	90	107
Disposals	(3)	(49)	(52)
At 25 September 2004	<b>68</b>	<b>212</b>	<b>280</b>
<b>Net book value</b>			
At 25 September 2004	<b>2,776</b>	<b>733</b>	<b>3,509</b>
At 27 September 2003	2,760	762	3,522

#### Properties

Properties comprising land, buildings and certain fixtures, fittings and equipment, are included above at cost or valuation, less depreciation as required. The transitional rules of FRS 15 have been followed, permitting the carrying value of properties as at 1 October 1999 to be retained.

In 1996, a group restructuring by Six Continents resulted in the transfer at book value of certain fixed assets to a subsidiary that subsequently became part of the Mitchells & Butlers group. The book value included the effect of revaluations undertaken prior to 1996. Accordingly, the carrying value of the Group's fixed assets reflects those revaluations in its historic cost, which at 25 September 2004 amounted to £392m (2003 £400m). In addition, the carrying value of the Group's fixed assets reflects the 1999 revaluation (see below) which at 25 September 2004 amounted to £339m (2003 £341m).

The most recent valuation of properties reflected in the carrying value of fixed assets was undertaken in 1999 and covered all properties then owned by the Group other than leasehold properties having an unexpired term of 50 years or less. This valuation was undertaken by external chartered surveyors, Chesterton plc, internationally recognised valuers, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The basis of valuation was predominantly existing use value and had regard to trading potential.

#### 14. Tangible fixed assets continued

##### Historical cost

The comparable amounts under the historical cost convention for properties would be:

	2004 £m	2003 £m
Cost	2,424	2,389
Depreciation	(76)	(62)
Net book value	2,348	2,327

##### Net book value

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

	2004			2003 £m
	Cost or valuation £m	Depreciation £m	Net book value £m	
Freehold	2,558	(28)	2,530	2,502
Leasehold: unexpired term of more than 50 years	105	(3)	102	101
unexpired term of 50 years or less	181	(37)	144	157
	2,844	(68)	2,776	2,760
Cost or valuation of land and buildings:				
1999 valuation	1,413			
Cost	1,431			
	2,844			

#### 15. Fixed asset investments

Company	Shares in group undertakings £m
<b>Cost</b>	
At 28 September 2003	1,746
Exchange	(1)
At 25 September 2004	1,745
<b>Provision for diminution in value</b>	
At 28 September 2003	3
Provided during year	2
At 25 September 2004	5
<b>Net book value</b>	
At 25 September 2004	1,740
At 27 September 2003	1,743

## 15. Fixed asset investments continued

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following principal operating companies:

Name of subsidiary	Country of registration	Country of operation	Nature of business
Mitchells & Butlers Retail Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers Retail (No. 2) Ltd	England and Wales	United Kingdom	Leisure retailing
Mitchells & Butlers (Property) Ltd	England and Wales	United Kingdom	Property management
Mitchells & Butlers Leisure Retail Ltd	England and Wales	United Kingdom	Service company
Mitchells & Butlers Finance plc	England and Wales	United Kingdom	Finance company
Mitchells & Butlers Germany GmbH*	Germany	Germany	Leisure retailing
Standard Commercial Property Developments Ltd*	England and Wales	United Kingdom	Property development

\*Shares held directly by Mitchells & Butlers plc.

A full list of subsidiary undertakings will be annexed to the next annual return of Mitchells & Butlers plc to be filed with the Registrar of Companies.

## 16. Stocks

Group	2004 £m	2003 £m
Work in progress	20	19
Finished stocks	23	24
	<b>43</b>	<b>43</b>

The replacement cost of stocks approximates to the value stated above. Work in progress is in respect of property developments.

## 17. Debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Amounts falling due within one year</b>				
Trade debtors	3	10	–	–
Amounts owed by group undertakings	–	–	124	581
Other debtors	42	36	–	–
Corporate taxation	–	–	16	13
Prepayments	37	42	–	3
	<b>82</b>	<b>88</b>	<b>140</b>	<b>597</b>
<b>Amounts falling due after more than one year</b>				
Pension prepayment	140	98	140	–
Other prepayments	–	11	–	–
	<b>140</b>	<b>109</b>	<b>140</b>	<b>–</b>
Total debtors	<b>222</b>	<b>197</b>	<b>280</b>	<b>597</b>

### 18. Creditors: amounts falling due within one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Borrowings (note 20)	35	234	–	247
Trade creditors	41	45	–	–
Corporate taxation	59	50	–	–
Other taxation and social security	42	39	–	–
Accrued charges	90	86	–	5
Proposed dividend	34	29	34	29
Amounts owed to group undertakings	–	–	1,561	77
Other creditors	25	25	1	–
	<b>326</b>	<b>508</b>	<b>1,596</b>	<b>358</b>

### 19. Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Borrowings (note 20)	1,822	1,001	–	1,000

### 20. Borrowings

Group	2004			2003		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Overdrafts	–	–	–	13	–	13
Securitised debt*	32	1,821	1,853	–	–	–
Syndicated loan facility	–	–	–	218	1,000	1,218
Loan notes**	2	–	2	2	–	2
Finance leases	1	1	2	1	1	2
Total borrowings	<b>35</b>	<b>1,822</b>	<b>1,857</b>	234	1,001	1,235
<b>Company</b>						
Overdrafts	–	–	–	29	–	29
Syndicated loan facility	–	–	–	218	1,000	1,218
Total borrowings	–	–	–	247	1,000	1,247

\*This debt is secured as explained on page 43.

\*\*These loan notes are partially secured by a bank deposit.

All other borrowings are unsecured.

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Analysis by year of repayment</b>				
Due within one year or on demand	35	234	–	247
Due between one and two years	37	1	–	–
Due between two and five years	121	1,000	–	1,000
Due after five years	1,664	–	–	–
Total borrowings	<b>1,857</b>	<b>1,235</b>	–	<b>1,247</b>

## 20. Borrowings continued

### Securitised debt

On 13 November 2003, a group company, Mitchells & Butlers Finance plc, issued £1,900m of secured loan notes in connection with the securitisation of the majority of the Group's UK pubs and restaurants business owned by Mitchells & Butlers Retail Limited. The funds raised were mainly used to repay existing bank borrowings of £1,243m, pay issue costs of £23m and return £501m to shareholders by way of a special dividend (see note 11).

The loan notes consist of six tranches with principal terms as follows:

Tranche	£m	Interest	Principal repayment period	Expected WAL
A1	200	Floating	By instalments 2011 to 2028	6 years
A2	550	5.574%	By instalments 2003 to 2028	12 years
A3	250	Floating	By instalments 2011 to 2028	6 years
B1	350	5.965%	By instalments 2003 to 2023	10 years
B2	350	6.013%	By instalments 2015 to 2028	20 years
C	200	6.469%	By instalments 2029 to 2030	25 years
	1,900			

The expected remaining WAL (weighted average life) is based on the amortisation profile of the individual note tranches and assumes refinancing of the A1 and A3 notes on the margin step-up dates below.

The notes are secured on substantially all of the Group's property and future income streams therefrom.

Interest on the Class A1 notes is payable at three month LIBOR plus a margin of 0.45%, stepping up to LIBOR plus 0.90% in December 2010. These notes are fully hedged using interest rate swaps which fix the interest rate payable.

The Class A3 notes were issued in principal amount of \$418.75m, with interest payable at three month US dollar LIBOR plus a margin of 0.45%, stepping up to US dollar LIBOR plus 0.90% in December 2010. These notes are fully hedged using currency swaps and interest rate swaps, whereby all principal and interest liabilities are swapped into sterling providing an initial principal of £250m and fixed interest payable.

The overall cash interest rate payable on the loan notes is 6% after taking account of interest rate hedging and the cost of the provision of a financial guarantee provided by Ambac in respect of the Class A notes.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other group companies. At 25 September 2004, Mitchells & Butlers Retail Limited had short-term deposits and cash of £98m, which were governed by certain restrictions under the covenants associated with the securitisation.

The carrying value of the loan notes in the Group balance sheet at 25 September 2004 is analysed as follows:

	£m
Gross proceeds received on 13 November 2003	1,900
Principal repaid	(28)
Principal outstanding at 25 September 2004	1,872
Deferred issue costs	(22)
Accrued interest	3
Carrying value at 25 September 2004	1,853

## 20. Borrowings continued

### Facilities committed by banks

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Utilised	–	1,218	–	1,218
Unutilised	280	282	–	282
	280	1,500	–	1,500
Unutilised facilities expire:				
Within one year	220	282	–	282
Between two and five years	60	–	–	–
	280	282	–	282

The unutilised facility expiring within one year was renewed in November 2004.

## 21. Financial instruments

The Group's treasury policy and use of financial instruments are discussed in the Operating and Financial Review on page 5. The disclosures in this note exclude short-term debtors and creditors where permitted by FRS 13.

### Principal hedging instruments

In order to manage interest rate risk, the Group has entered into interest rate and currency swap agreements that fix the interest payable on the floating rate tranches of the securitised debt (see note 20). At 25 September 2004, these agreements were for a notional principal amount of £450m (2003 £nil).

### Currency and interest rate profile of financial assets and liabilities

After taking into account the interest rate and currency swap agreements entered into by the Group, the currency and interest profile of the Group's financial assets and liabilities at the balance sheet date was:

	2004			2003		
	Total £m	Non-interest bearing £m	Floating rate £m	Total £m	Non-interest bearing £m	Floating rate £m
Financial assets						
Sterling	219	2	217	6	2	4
Euro	6	–	6	1	–	1
	225	2	223	7	2	5

Financial assets comprise cash of £81m (2003 £4m) and current asset investments of £144m (2003 £3m).

	2004							Weighted average fixed rate %	Weighted average period fixed (years)
	Total before currency swaps £m	Currency swaps £m	Total after currency swaps £m	Non-interest bearing £m	Floating rate £m	Fixed rate £m			
Financial liabilities									
Sterling	1,611	248	1,859	2	2	1,855	6.15	13	
US dollar	248	(248)	–	–	–	–	–	–	
	1,859	–	1,859	2	2	1,855	6.15	13	

	2003		
	Total £m	Non-interest bearing £m	Floating rate £m
Financial liabilities			
Sterling	1,238	3	1,235

Financial liabilities comprise borrowings of £1,857m (2003 £1,235m) as disclosed in note 20 and provisions for property leases of £2m (2003 £3m).

Floating rate financial assets and liabilities bear interest at market rates based on LIBOR.

## 21. Financial instruments continued

### Currency risk

After taking into account the above hedging arrangements, the Group does not have a material profit and loss account exposure to foreign exchange gains or losses on monetary assets and liabilities. In addition, the Group is predominantly UK based and therefore does not have a significant currency exposure from its operations. Under the provisions of SSAP 20, any foreign exchange gains or losses arising from the translation of overseas net assets are recognised in the statement of total recognised group gains and losses.

### Fair values of financial assets and liabilities

	2004		2003	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Cash	81	81	4	4
Current asset investments	144	144	3	3
Overdrafts	–	–	(13)	(13)
Securitised debt (excluding interest rate and currency swaps)	(1,835)	(1,909)	–	–
Syndicated loan facility	–	–	(1,218)	(1,218)
Loan notes	(2)	(2)	(2)	(2)
Finance leases	(2)	(2)	(2)	(2)
Provisions for property leases	(2)	(2)	(3)	(3)
Interest rate swaps	–	(6)	–	–
Currency swaps	(18)	(22)	–	–
	<b>(1,634)</b>	<b>(1,718)</b>	<b>(1,231)</b>	<b>(1,231)</b>

The various tranches of the securitised debt have been valued using period end mid-market quoted prices. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on the termination of the agreements. These amounts are based on quotations from counterparties and take into consideration interest and exchange rates prevailing at the balance sheet date. Borrowings under the syndicated loan facility incurred interest at floating rates and their book value therefore approximated to their fair value. Other financial assets and liabilities are either short-term in nature or book values approximate to fair values.

### Gains and losses on hedges

Gains and losses on derivative instruments used for hedging are not recognised in the financial statements until the hedged exposure is itself recognised. Unrecognised gains and losses on hedging instruments are as follows:

	Gains £m	Losses £m	Net £m
Unrecognised at 28 September 2003	–	–	–
Arising in the year but not recognised	–	(10)	(10)
Unrecognised at 25 September 2004	–	<b>(10)</b>	<b>(10)</b>
Analysed as:			
Expected to be recognised in 2004/05	–	(1)	(1)
Expected to be recognised thereafter	–	(9)	(9)
	–	<b>(10)</b>	<b>(10)</b>

## 22. Deferred taxation

	Group £m	Company £m
At 28 September 2003	203	–
Profit and loss account	14	5
Transfer of pension prepayment	–	29
At 25 September 2004	<b>217</b>	<b>34</b>

Analysed as tax on timing differences related to:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Fixed assets	135	126	–	–
Deferred gains	49	49	–	–
Pension prepayment	35	29	35	–
Other	(2)	(1)	(1)	–
	<b>217</b>	203	<b>34</b>	–

Tax losses with a value of £6m (2003 £5m) have not been recognised as their use is uncertain or not currently anticipated.

No provision has been made for deferred tax on the sale of properties at their revalued amounts or where gains have been or are expected to be deferred against expenditure on replacement assets for an indefinite period until the sale of the replacement assets. The total amount unprovided is estimated at £212m (2003 £235m restated). It is not anticipated that any such tax will be payable in the foreseeable future. The 2003 restatement arises from a review of the historical tax base of the Group's properties and new information becoming available in January 2004.

## 23. Other provisions for liabilities and charges

Group	Reorganisation £m	Property leases £m	Total £m
At 28 September 2003	1	3	4
Utilised	(1)	(1)	(2)
At 25 September 2004	–	<b>2</b>	<b>2</b>

The timing of the cost of exiting the property leases is uncertain.

## 24. Called up share capital

	2004		2003	
	Number of shares	£m	Number of shares	£m
<b>Authorised</b>				
Redeemable preference shares of £50,000 each	1	–	1	–
Redeemable deferred shares of 1p each	2	–	2	–
Ordinary shares of 7½p each	1,424,304,000	101	–	–
Ordinary shares of 5p each	–	–	2,017,764,000	101
	<b>1,424,304,003</b>	<b>101</b>	2,017,764,003	101
<b>Called up, allotted and fully paid</b>				
Redeemable preference shares of £50,000 each	–	–	–	–
Redeemable deferred shares of 1p each	–	–	–	–
Ordinary shares of 7½p each	523,792,544	37	–	–
Ordinary shares of 5p each	–	–	736,223,779	37
	<b>523,792,544</b>	<b>37</b>	736,223,779	37



## 24. Called up share capital continued

On 2 December 2003, the Company's ordinary share capital was consolidated on a 12 for 17 basis in connection with the payment of a special dividend (see note 11). The share consolidation resulted in the issue of 519,739,246 new ordinary shares of 7½p each in replacement for 736,297,265 existing ordinary shares of 5p each.

Prior to the share consolidation, the Company issued 73,486 ordinary shares of 5p each on the exercise of rolled over share options (see below). Subsequent to the share consolidation, a further 4,053,298 ordinary shares of 7½p each were issued in respect of rolled over and sharesave options. The aggregate consideration received on the issue of these shares was £8m.

### Options to subscribe for ordinary shares

	Rolled over options millions	Post separation options millions	Total millions
At 28 September 2003	24.1	10.7	34.8
Granted	0.8	7.1	7.9
Exercised	(4.6)	–	(4.6)
Lapsed	(5.1)	(1.0)	(6.1)
At 25 September 2004	<b>15.2</b>	<b>16.8</b>	<b>32.0</b>

Rolled over options were originally granted under the Six Continents Executive Share Option Schemes. On separation from Six Continents on 15 April 2003, employees and certain former employees of the Six Continents group had the opportunity to roll over their options over Six Continents PLC shares into options over Mitchells & Butlers plc shares. The number of options exchanged and the exercise prices were calculated in accordance with a formula based on the closing Six Continents' and opening Mitchells & Butlers' share prices, both averaged over a five-day period. Exercise prices range from £1.81 to £3.64 and options are exercisable until 4 October 2012. These options are not subject to a future performance condition.

Since separation, the Company has granted options under the following share schemes:

#### Sharesave

An Inland Revenue approved savings scheme open to all employees, whereby the proceeds from the savings contract, of either three or five years duration, are used to purchase shares under options granted at the commencement of the savings contract, at a discount of 20% to the market value of the shares at the date of grant. The options may be exercised up to six months after the maturity of the savings contract. Outstanding options over 4.7m shares were in existence at 25 September 2004 (2003 4.0m); 1.5m at an exercise price of £2.09 and 3.2m (2003 4.0m) at an exercise price of £1.69.

#### Executive Share Option Plan

A discretionary share plan whereby options may be granted to senior management at the prevailing market price at the date of grant. Options generally become exercisable between three and ten years after the date of grant, subject to achievement of a performance condition. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 16. Outstanding options over 8.0m shares were in existence at 25 September 2004 (2003 4.2m); 3.9m at an exercise price of £2.53 and 4.1m (2003 4.2m) at an exercise price of £2.19.

#### Performance Restricted Share Plan

A discretionary share plan whereby options are granted to a small group of the Company's most senior executives. Options are exercisable within two years after the completion of a three-year performance period. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 16. Outstanding options over 4.1m shares were in existence at 25 September 2004 (2003 2.5m); all options have an exercise price of £1 per employee per share plan.

## 25. Employee share trusts

The Company has established two employee share trusts:

#### Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and national insurance contributions. The trust buys the shares in the market with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 25 September 2004, the trustees, Hill Samuel ESOP Trustee Limited, were holding 627,974 (2003 425,185) shares in the Company. Of these shares, 605,689 (2003 414,557) have been conditionally gifted to employees.

## 25. Employee share trusts continued

### Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Rolled over options. The trust purchases shares in the market from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the Trust. At 25 September 2004, the trustees, Mourant & Co Trustees Limited, were holding 3,736,671 shares (2003 nil) in the Company. Of these shares, 277,320 (2003 nil) have been conditionally gifted to employees and 822,859 (2003 nil) are under option.

## 26. Share capital and reserves

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Profit and loss account reserve			Total share capital and reserves £m
				Own shares £m	Other £m	Total £m	
At 28 September 2003	37	4	341	–	1,682	1,682	2,064
Issue of ordinary shares	–	8	–	–	–	–	8
Purchase of own shares by employee share trusts	–	–	–	(12)	–	(12)	(12)
Release of own shares by employee share trusts	–	–	–	1	–	1	1
Credit in respect of employee share schemes	–	–	–	–	7	7	7
Revaluation surplus realised	–	–	(2)	–	2	2	–
Retained loss for the year	–	–	–	–	(425)	(425)	(425)
Exchange differences	–	–	–	–	(1)	(1)	(1)
<b>At 25 September 2004</b>	<b>37</b>	<b>12</b>	<b>339</b>	<b>(11)</b>	<b>1,265</b>	<b>1,254</b>	<b>1,642</b>

Goodwill eliminated against reserves at 25 September 2004 was £50m (2003 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had profit and loss account reserves of £709m at 25 September 2004. Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 20).

Company	Share capital £m	Share premium £m	Other reserve £m	Profit and loss account reserve			Total share capital and reserves £m
				Own shares £m	Other £m	Total £m	
At 28 September 2003	37	4	–	–	942	942	983
Issue of ordinary shares	–	8	–	–	–	–	8
Purchase of own shares by employee share trusts	–	–	–	(12)	–	(12)	(12)
Release of own shares by employee share trusts	–	–	–	1	–	1	1
Credit in respect of employee share schemes	–	–	–	–	7	7	7
Pension transfer from subsidiary (note 7)	–	–	45	–	–	–	45
Retained loss for the year	–	–	–	–	(498)	(498)	(498)
Exchange differences	–	–	–	–	(1)	(1)	(1)
<b>At 25 September 2004</b>	<b>37</b>	<b>12</b>	<b>45</b>	<b>(11)</b>	<b>450</b>	<b>439</b>	<b>533</b>

The profit and loss account reserve is wholly distributable after the deduction for Own shares. The Other reserve is not distributable.

The Company has taken advantage of Section 230 of the Companies Act 1985 and not presented its own profit and loss account. A profit after tax of £52m (2003 £36m loss), less dividends of £550m (2003 £29m), is dealt with in the accounts of the parent company.

### Own shares

Own shares held by the Group and Company represent the shares in the Company held by the employee share trusts, further details of which are given in note 25. During the year, the trusts acquired 4,584,826 shares at a cost of £12m. 509,388 shares were released on the exercise of share options for a consideration of £1m and for the satisfaction of an award to Tim Clarke accrued under the Six Continents Special Deferred Incentive Plan for 2001/02. The 4,364,645 shares held by the trusts at 25 September 2004 had a market value of £11.3m (27 September 2003 425,185 shares held had a market value of £1.0m).

## 27. Reconciliation of operating profit to net cash inflow from operating activities

	2004 £m	2003 £m
Operating profit before exceptional items	285	275
Depreciation and amortisation	108	99
<b>Earnings before interest, taxation, depreciation, amortisation and exceptional items</b>	<b>393</b>	<b>374</b>
Decrease in stocks	–	6
Increase in debtors	(32)	(34)
Increase in creditors	20	2
Provisions expended	(2)	(4)
Other non-cash items	4	–
<b>Net cash inflow from operating activities before expenditure relating to exceptional items</b>	<b>383</b>	<b>344</b>
Operating exceptional expenditure	(4)	(2)
Separation costs paid	(1)	(36)
<b>Net cash inflow from operating activities</b>	<b>378</b>	<b>306</b>

## 28. Net cash flow

	2004 £m	2003 £m
<b>Net cash inflow from operating activities before expenditure relating to exceptional items*</b>	<b>383</b>	<b>344</b>
Net capital expenditure	(99)	(103)
<b>Operating cash flow after net capital expenditure</b>	<b>284</b>	<b>241</b>
Net interest paid (excluding issue costs paid in respect of securitised debt)	(98)	(49)
Tax paid	(34)	(44)
Normal dividends paid	(44)	–
Issue of ordinary share capital	8	4
Purchase of own shares by employee share trusts	(12)	–
Proceeds on release of shares by employee share trusts	1	–
Special dividends paid	(501)	–
Operating exceptional expenditure	(4)	(2)
Separation costs paid	(1)	(36)
Issue costs paid in respect of securitised debt	(22)	(1)
Facility fees paid	–	(15)
<b>Net cash flow</b>	<b>(423)</b>	<b>98</b>

\*Includes £40m (2003 £27m) of additional pension contributions.

## 29. Net debt

	At 28 September 2003 £m	Movement arising from cash flows £m	Non-cash movement in net debt £m	At 25 September 2004 £m
Cash at bank and in hand	4	77	–	<b>81</b>
Overdraft	(13)	13	–	–
Cash	(9)	90	–	<b>81</b>
Liquid resources (current asset investments)	3	141	–	<b>144</b>
Borrowings due within one year	(221)	189	(3)	<b>(35)</b>
Borrowings due after one year	(1,001)	(821)	–	<b>(1,822)</b>
	(1,228)	(401)	(3)	<b>(1,632)</b>

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources comprise short-term deposits and investments of less than one year (other than cash).

## 29. Net debt continued

### Reconciliation of net cash flow to movements in net debt

	2004 £m	2003 £m
Increase/(decrease) in cash and overdrafts	90	(25)
Management of liquid resources	141	1
Financing activities	(651)	118
Issue of ordinary share capital	8	4
Purchase of own shares by employee share trusts	(12)	–
Proceeds on release of shares by employee share trusts	1	–
<b>Net cash flow</b> (note 28)	<b>(423)</b>	98
Issue costs paid in respect of securitised debt	22	–
Net funding flows with Six Continents group	–	193
Cash payment to former Six Continents PLC shareholders	–	(702)
<b>Increase in net debt arising from cash flows</b>	<b>(401)</b>	(411)
Non-cash movement in net debt	(3)	–
<b>Increase in net debt</b>	<b>(404)</b>	(411)
Opening net debt	(1,228)	(817)
<b>Closing net debt</b>	<b>(1,632)</b>	(1,228)

## 30. Financial commitments

### Operating lease commitments

The Group has annual commitments under operating leases at 25 September 2004 which expire as follows:

	Properties		Other	
	2004 £m	2003 £m	2004 £m	2003 £m
Within one year	1	1	3	2
Between one and five years	2	3	3	3
After five years	39	37	–	–
	<b>42</b>	41	<b>6</b>	5

### Capital commitments

	Group	
	2004 £m	2003 £m
Contracts placed for expenditure on fixed assets not provided for in the financial statements	26	20

## 31. Contingent liabilities

The Company has given indemnities in respect of the disposal of certain companies previously within the Six Continents group. It is the view of the Directors that, other than to the extent that liabilities have been provided for in these financial statements, such indemnities are not expected to result in financial loss to the Group.

## 32. Related party disclosures

There were no transactions with related parties requiring disclosure under FRS 8 'Related Party Transactions' during the year.

	2003 £m
During 2003 in the period before separation, the Group had the following transactions with Six Continents group:	
Net interest paid	23
Costs recharged, including separation costs	29
Pension scheme payments	3
Net funding	(184)
Total	(129)

### 33. US GAAP reconciliations

The financial statements set out on pages 26 to 50 are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) which differ from those generally accepted in the United States (US GAAP). The significant differences, as they apply to the Group, are summarised below.

#### Intangible fixed assets

Under UK GAAP, goodwill arising on the acquisition of subsidiaries is capitalised and amortised over its estimated useful life. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. Under US GAAP, the Group adopted SFAS 142 'Goodwill and Other Intangible Assets' with effect from 1 October 2002. In accordance with SFAS 142, goodwill would be capitalised and not amortised, but tested for impairment. Prior to 1 October 2002 under US GAAP, goodwill would have been capitalised and amortised over its estimated useful life, not exceeding 40 years. As at 25 September 2004, the Group had no intangible assets, other than goodwill, under either UK GAAP or US GAAP.

#### Impairment of goodwill

Under UK GAAP, goodwill is tested for potential impairment when there is an indication that impairment may have occurred. The impairment is measured by comparing the goodwill carrying value of the relevant income-generating unit with the higher of net realisable value and value in use. Under US GAAP, SFAS 142 requires goodwill to be tested for impairment on an annual basis, or on an interim basis when a triggering event occurs, using a two-step process. The first step requires the comparison of the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, then no further testing is required. If the carrying value of a reporting unit exceeds its fair value, a second step is required to determine the amount of the impairment charge, if any. An impairment charge is recognised if the carrying value of a reporting unit's goodwill exceeds the fair value of that goodwill. The Group has performed an updated evaluation of its goodwill as at 25 September 2004 which has reaffirmed that an impairment charge is not required under SFAS 142.

#### Tangible fixed assets

Prior to 1 October 1999, the Group's properties were valued from time to time by professionally qualified external valuers and book values were adjusted to accord with the valuations. Under US GAAP, revaluation would not have been permitted which means that the carrying value of tangible fixed assets is lower under US GAAP.

Under UK GAAP, depreciation is based on the book value of assets, including revaluation where appropriate. Prior to 1 October 1999, freehold pubs were not depreciated under UK GAAP, as any charge would have been immaterial given that such properties were maintained, as a matter of policy, by a programme of repair and maintenance such that their residual values were at least equal to their book values. Following the introduction of FRS 15, which was implemented by the Group with effect from 1 October 1999, all properties are depreciated under UK GAAP. There is now no difference between UK GAAP and US GAAP with regard to depreciation.

#### Share-based compensation

Under UK GAAP, the Group makes a charge for the cost of share awards or share options based on the difference between the fair value of the shares on the date of the award and the amount the scheme participant may be required to pay for the shares. The expense is recognised over the performance period of the relevant scheme based on a reasonable expectation of the extent to which the performance criteria will be met. Under US GAAP, these awards and options would be accounted for as variable plans with the expense based on the intrinsic value, remeasured at each balance sheet date and spread over the performance period. Under US GAAP, a charge could therefore arise in respect of the Group's Executive Share Option Plan (no charge arises under UK GAAP as the exercise price is equivalent to the market value at date of grant).

The Group also operates an Inland Revenue approved Sharesave scheme open to all employees, which gives a 20% discount on the fair value of its shares. Under UK GAAP no cost is recognised in respect of this scheme. Under US GAAP, fixed plan accounting would apply resulting in an expense for the 20% discount over the period of the savings contracts. Since 24 January 2002, an employer's offer to enter into new contracts at a lower exercise price than the price under existing contracts can cause variable plan accounting to apply in respect of certain options. This could result in an additional charge for those options that qualify for variable plan accounting.

#### Pension costs

The Group provides for the cost of retirement benefits based upon consistent percentages of employees' pensionable pay as recommended by independent qualified actuaries. Under US GAAP, the projected benefit obligation (pension liability) in respect of the Group's two principal pension plans would be matched against the fair value of the plans' assets and would be adjusted to reflect any unrecognised obligations or assets in determining the pension cost or credit for the year.

At 25 September 2004, the accumulated benefit obligations exceeded the fair value of the plans' assets. In these circumstances, US GAAP requires the recognition of the difference as a balance sheet liability and the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, not exceeding the amount of unrecognised past service cost, is recognised as an intangible asset with the balance reported in other comprehensive income.

#### Deferred taxation

Under UK GAAP, the Group provides for deferred taxation in respect of timing differences, subject to certain exceptions, between the recognition of gains and losses in the financial statements and for tax purposes. Timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets and the gain on sale of assets rolled into replacement assets. Under US GAAP, deferred taxation would be computed, on a stand-alone basis, on all differences between the tax bases and book values of assets and liabilities which will result in taxable or tax deductible amounts arising in future years. A valuation

### 33. US GAAP reconciliations continued

allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realised.

#### Derivative instruments and hedging

The Group uses interest rate and currency swaps to fix the interest rate payable on the floating rate tranches of its securitised debt. Under UK GAAP, these instruments are measured at cost and accounted for as hedges, whereby gains and losses are recognised only when the exposure that is being hedged is itself recognised. Under US GAAP, all derivative instruments (including those embedded in other contracts) are recognised on the balance sheet at their fair values. Changes in fair value are recognised in net income unless hedge accounting can be applied. To qualify for hedge accounting, the hedging relationship must be designated, documented and tested for ongoing effectiveness. If hedge accounting is applied, changes in fair value are recognised periodically in net income or in shareholders' equity as a component of other comprehensive income depending on whether the derivative qualifies as a fair value or cash flow hedge.

Prior to their designation as cash flow hedges on the issuance of the floating rate tranches of the securitised debt, changes in the fair value of the interest rate and currency swaps were recorded in the income statement.

#### Exceptional items

Under UK GAAP, certain exceptional items are shown on the face of the profit and loss account statement after operating profit. These items are mainly gains and losses on the sale of businesses and fixed assets, and the cost of fundamental reorganisations. Under US GAAP these items would be classified as operating profit or expenses.

#### Classification of debt issuance costs

Under UK GAAP, the debt issuance costs relating to the securitised debt are deducted from the carrying value of the related loan notes. Under US GAAP, these costs would be reported as deferred financing costs and classified as non-current assets.

#### Proposed dividends

Under UK GAAP, final ordinary dividends are provided for in the year in respect of which they are proposed by the Board for approval by shareholders. Under US GAAP, dividends would not be provided for until the year in which they are declared.

#### Earnings per share

On 2 December 2003, the Company completed a share consolidation which resulted in the issue of 12 new ordinary shares of 7½p each for every 17 existing ordinary shares of 5p each. Under UK GAAP, prior period earnings per share have not been restated as the share consolidation was accompanied by a special dividend and the combined transaction was designed to have the same overall effect as a buy back of shares at fair value. US GAAP would require prior period net income per American Depositary Share to be restated to reflect the change in capital structure.

#### Provisions

In previous years, under UK GAAP provisions for liabilities and charges included amounts relating to the restructuring of certain of the Group's operations. Under US GAAP, certain of these amounts would have been charged to net income as incurred. The restructuring was completed in 2003.

#### Turnover

Following the adoption of the Amendment to FRS 5 under UK GAAP (see note 1), the Group's accounting policy on revenue recognition is aligned with the requirements of US GAAP.

### 33. US GAAP reconciliations continued

#### Net income under US GAAP

	2004 £m	2003 £m	2004 \$m	2003 \$m
<b>Profit for the financial year in accordance with UK GAAP</b>	<b>125</b>	125	<b>224</b>	200
Amortisation of intangible fixed assets	1	1	2	2
Disposal of tangible fixed assets	11	7	20	11
Provisions	–	(13)	–	(21)
Pension costs	(31)	(14)	(56)	(22)
Share-based compensation	(1)	–	(2)	–
Fair value of derivatives	2	–	4	–
Deferred taxation				
– on above adjustments	15	4	27	6
– methodology	–	(9)	–	(14)
Total adjustments	(3)	(24)	(5)	(38)
<b>Net income in accordance with US GAAP</b>	<b>122</b>	101	<b>219</b>	162
	2004 p	2003 restated p	2004 ¢	2003 restated ¢
<b>Net income per American Depositary Share</b>				
Basic*	23.5	19.5	42.1	31.2
Diluted**	23.3	19.4	41.9	31.2
Translation rate (average rate)			£1=\$1.79	£1=\$1.60

\*Calculated by dividing net income in accordance with US GAAP by 520m (2003 519m restated) shares, being the weighted average number of ordinary shares in issue during the year. Each American Depositary Share represents one ordinary share. The weighted average number of ordinary shares for 2003 has been restated to provide consistency with the Mitchells & Butlers Form 20-F for 2003 published on 16 March 2004. The restatement reflects the reduction in shares arising from the share consolidation on 2 December 2003 (see note 11). The weighted average number of ordinary shares and basic net income per American Depositary Share reported in the Annual Report and Financial Statements 2003 were 735m and 13.7p (22.0¢) respectively.

\*\*Calculated by adjusting basic net income per American Depositary Share in accordance with US GAAP to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the year. The resulting weighted average number of ordinary shares is 523m (2003 520m restated). The weighted average number of ordinary shares for 2003 has been restated to provide consistency with the Mitchells & Butlers Form 20-F for 2003 published on 16 March 2004. The restatement reflects the reduction in shares arising from the share consolidation on 2 December 2003 (see note 11). The weighted average number of ordinary shares and diluted net income per American Depositary Share reported in the Annual Report and Financial Statements 2003 were 736m and 13.7p (22.0¢) respectively.

33. US GAAP reconciliations continued

Shareholders' equity under US GAAP

	2004	2003	2004	2003
	£m	restated* £m	\$m	restated* \$m
<b>Shareholders' funds in accordance with UK GAAP</b>	<b>1,642</b>	2,064	<b>2,956</b>	3,426
Intangible fixed assets:				
Goodwill: Cost	174	174	313	289
Accumulated amortisation	5	4	9	7
	179	178	322	296
Pension intangible asset	12	14	22	23
	191	192	344	319
Tangible fixed assets:				
Cost	(731)	(741)	(1,316)	(1,229)
Accumulated depreciation	(121)	(122)	(218)	(203)
	(852)	(863)	(1,534)	(1,432)
Current assets:				
Pension prepayment	(140)	(98)	(252)	(163)
Deferred financing costs	2	–	4	–
Non-current assets:				
Deferred financing costs	20	–	36	–
Creditors: amounts falling due within one year:				
Borrowings	(2)	–	(4)	–
Proposed dividends	34	29	61	48
Creditors: amounts falling due after one year:				
Borrowings	(2)	–	(4)	–
Derivatives	(28)	–	(50)	–
Provisions for liabilities and charges:				
Accrued pension cost	(154)	(212)	(277)	(352)
Deferred taxation				
– on above adjustments	95	89	171	148
– methodology	–	–	–	–
Total adjustments	(836)	(863)	(1,505)	(1,432)
<b>Shareholders' equity in accordance with US GAAP</b>	<b>806</b>	1,201	<b>1,451</b>	1,994
Translation rate (year end rate)			£1=\$1.80	£1=\$1.66

\*The goodwill cost has been restated to provide consistency with the Mitchells & Butlers Form 20-F for 2003 published on 16 March 2004. During a review of the historical tax base of the Group's properties used in prior years, new information became available in January 2004 which resulted in additional goodwill of £43m arising on an acquisition in 2000 under US GAAP. Shareholders' equity in accordance with US GAAP previously reported in the Annual Report and Financial Statements 2003 was £1,158m (\$1,922m).



# Four year review

## Profit and loss account information

	2004	Pro forma 2003 restated (a)	Pro forma 2002 restated (a) (b)	2003 restated (a)	2002 restated (a) (b)	2001 restated (a)
	£m	£m	£m	£m	£m	£m
<b>Turnover</b>						
Pubs & Bars	913	873	863	873	863	828
Restaurants	641	614	605	614	605	561
Inns & Other	–	–	–	–	–	161
Retail	1,554	1,487	1,468	1,487	1,468	1,550
SCPD	6	17	6	17	6	5
	<b>1,560</b>	<b>1,504</b>	<b>1,474</b>	<b>1,504</b>	<b>1,474</b>	<b>1,555</b>
<b>Operating profit</b>						
Pubs & Bars	180	177	190	177	190	187
Restaurants	104	96	98	96	98	87
Inns & Other	–	–	–	–	–	31
Retail	284	273	288	273	288	305
SCPD	1	2	1	2	1	1
Operating exceptional items	(2)	–	–	(5)	–	–
<b>Total operating profit</b>	<b>283</b>	<b>275</b>	<b>289</b>	<b>270</b>	<b>289</b>	<b>306</b>
Non-operating exceptional items	2	–	–	(42)	(2)	(36)
<b>Profit before interest</b>	<b>285</b>	<b>275</b>	<b>289</b>	<b>228</b>	<b>287</b>	<b>270</b>
Finance charge	–	(76)	(86)	–	–	–
Net interest payable	(101)	–	–	(55)	(43)	(58)
Exceptional interest charge	(2)	–	–	(8)	–	–
<b>Profit before taxation</b>	<b>182</b>	<b>199</b>	<b>203</b>	<b>165</b>	<b>244</b>	<b>212</b>
Taxation	(57)	(64)	(65)	(40)	(80)	(82)
<b>Profit for the financial year</b>	<b>125</b>	<b>135</b>	<b>138</b>	<b>125</b>	<b>164</b>	<b>130</b>
Dividends	(550)	–	–	(29)	–	–
<b>Retained profit</b>	<b>(425)</b>	<b>135</b>	<b>138</b>	<b>96</b>	<b>164</b>	<b>130</b>
<b>Earnings per share</b>						
Basic	22.4p	–	–	17.0p	22.3p	17.7p
Adjusted	22.2p	–	–	20.3p	22.5p	23.6p
Diluted	22.2p	–	–	17.0p	22.3p	17.7p
Pro forma	–	18.4p	18.8p	–	–	–
<b>Dividends per share</b>	<b>9.50p</b>	–	–	5.65p	–	–

Notes:

(a) Turnover figures have been restated for the adoption of the Amendment to FRS 5 (see note 1 to the financial statements).

(b) Pro forma and adjusted earnings per share have been restated to exclude all exceptional items and tax thereon for comparability with 2004. Previously, exceptional items were classified as either 'major' or 'minor' items and only 'major' items were excluded from the earnings per share calculations.

## Four year review continued

### Balance sheet information

	2004 £m	2003 £m	2002 £m	2001 £m
Intangible fixed assets	10	11	11	11
Tangible fixed assets	3,509	3,522	3,526	3,381
<b>Total fixed assets</b>	<b>3,519</b>	<b>3,533</b>	<b>3,537</b>	<b>3,392</b>
Stocks	43	43	49	44
Operating debtors	82	84	82	93
Operating creditors	(197)	(176)	(167)	(171)
<b>Net current operating liabilities</b>	<b>(72)</b>	<b>(49)</b>	<b>(36)</b>	<b>(34)</b>
<b>Total operating assets less current operating liabilities</b>	<b>3,447</b>	<b>3,484</b>	<b>3,501</b>	<b>3,358</b>
Provisions for liabilities and charges	(2)	(4)	(14)	(13)
<b>Net operating assets</b>	<b>3,445</b>	<b>3,480</b>	<b>3,487</b>	<b>3,345</b>
External (net debt)/cash	(1,632)	(1,228)	14	15
Balances owed to Six Continents group	–	–	(831)	(825)
Corporate taxation	(59)	(50)	(59)	(81)
Deferred taxation	(217)	(203)	(197)	(170)
Pension prepayment	140	98	61	38
Proposed dividend	(34)	(29)	–	–
Balances relating to exceptional items	(1)	(4)	–	–
<b>Net assets</b>	<b>1,642</b>	<b>2,064</b>	<b>2,475</b>	<b>2,322</b>

### Cash flow information

	2004 £m	Pro forma 2003 £m	Pro forma 2002 £m	2003 £m	2002 £m	2001 £m
Operating profit	285	275	289	275	289	306
Depreciation and amortisation	108	99	87	99	87	85
Other non-cash items	–	–	(1)	–	(1)	(4)
<b>EBITDA*</b>	<b>393</b>	<b>374</b>	<b>375</b>	<b>374</b>	<b>375</b>	<b>387</b>
Working capital movement	26	(3)	(4)	(3)	(4)	(43)
Additional pension contributions	(40)	(27)	(10)	(27)	–	–
Other non-cash items	4	–	–	–	–	–
<b>Net cash inflow from operating activities*</b>	<b>383</b>	<b>344</b>	<b>361</b>	<b>344</b>	<b>371</b>	<b>344</b>
Purchase of tangible fixed assets	(150)	(151)	(256)	(151)	(256)	(314)
Sale of tangible fixed assets	51	48	30	48	30	26
<b>Net capital expenditure</b>	<b>(99)</b>	<b>(103)</b>	<b>(226)</b>	<b>(103)</b>	<b>(226)</b>	<b>(288)</b>
<b>Operating cash flow after capital expenditure*</b>	<b>284</b>	<b>241</b>	<b>135</b>	<b>241</b>	<b>145</b>	<b>56</b>
Net interest paid	(98)	–	–	(49)	(43)	(58)
Tax paid	(34)	–	–	(44)	(82)	(34)
Normal dividends paid	(44)	–	–	–	–	–
Issue of ordinary share capital	8	–	–	4	–	–
Purchase of own shares by employee share trusts	(12)	–	–	–	–	–
Proceeds on release of shares by employee share trusts	1	–	–	–	–	–
Special dividends paid	(501)	–	–	–	–	–
Operating exceptional expenditure	(4)	–	–	(2)	–	–
Separation costs paid	(1)	–	–	(36)	–	–
Issue costs paid in respect of securitised debt	(22)	–	–	(1)	–	–
Facility fees paid	–	–	–	(15)	–	–
Disposal of businesses	–	–	–	–	–	598
<b>Net cash flow</b>	<b>(423)</b>	<b>–</b>	<b>–</b>	<b>98</b>	<b>20</b>	<b>562</b>

\*Before exceptional items.

## Forward-looking statements

Both the Annual Review and Summary Financial Statement 2004 and the Annual Report and Financial Statements 2004 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of Mitchells & Butlers and certain plans and objectives of the Board of Directors of Mitchells & Butlers with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Report. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by Mitchells & Butlers' management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: the future balance between supply and demand for the Group's sites, the effect of economic conditions and unforeseen external events on the Group's business, the availability of suitable properties and necessary licences;

consumer and business spending; changes in consumer tastes and preferences; levels of marketing and promotional expenditure by Mitchells & Butlers and its competitors; changes in the cost and availability of supplies, key personnel and changes in supplier dynamics; significant fluctuations in exchange rates, interest rates and tax rates; the availability and effects of future business combinations, acquisitions or dispositions; the impact of legal and regulatory actions or developments; the impact of the European Economic and Monetary Union; the ability of Mitchells & Butlers to maintain appropriate levels of insurance; the maintenance of Mitchells & Butlers' IT structure; competition in markets in which Mitchells & Butlers operates; political and economic developments and currency exchange fluctuations; economic recession; management of Mitchells & Butlers' indebtedness and capital resource requirements; material litigation against Mitchells & Butlers; substantial trading activity in Mitchells & Butlers' shares; the reputation of Mitchells & Butlers' brands; the level of costs associated with leased properties; and the weather.

Other factors that could affect the business and financial results are described in Item 3 Risk Factors in the Mitchells & Butlers Form 20-F filed, on 16 March 2004 or in any subsequent year, with the US Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

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