



Mitchells & Butlers
owns 2,000 high-quality
managed pubs in
prime locations.

Contents

1	Financial highlights
2	Operating and financial review
7	Directors' report
9	Corporate governance
12	Remuneration report
22	Pro forma group profit and loss account
22	Pro forma group cash flow statement
22	Pro forma group operating assets statement
23	Notes to the pro forma financial statements
24	Group profit and loss account
25	Statement of total recognised group gains and losses
25	Note of historical cost group profits and losses
25	Reconciliation of movement in group shareholders' funds
26	Balance sheets
27	Group cash flow statement
28	Notes to the financial statements
50	Directors' responsibilities in relation to the financial statements
50	Report of the independent auditors
51	Three year review

Financial highlights

Turnover up 2% to £1,513m

EBITDA flat at £374m

Operating profit* down 5% to £275m

Profit before tax** down 1% at £199m

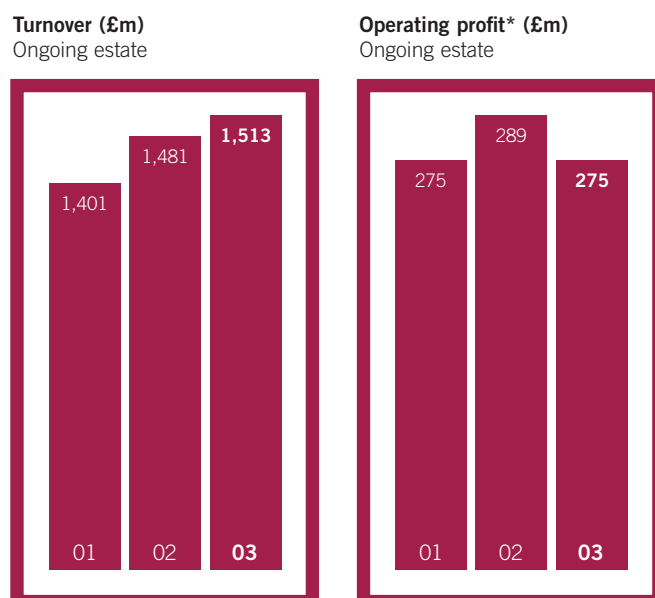
Net operating cash flow** £241m up £106m

Earnings per share** down 0.1p to 18.4p

Final dividend per share 5.65p

* Before major operating exceptional items.

** On a pro forma basis as set out on pages 22 and 23.



*Before major operating exceptional items.

Operating and financial review

This operating and financial review (OFR) provides a commentary on the performance of the Mitchells & Butlers group for the financial year ended 30 September 2003 and compares it with the financial year ended 30 September 2002. It reviews strategy, business performance and future developments, together with other aspects of the Group's activities including taxation, treasury management and accounting policies.

The OFR should be read in conjunction with the Directors' Report on pages 7 and 8 and the financial statements on pages 22 to 49.

Profit & loss account

	Pro forma 2003 £m	Pro forma 2002 £m	2003 £m	2002 £m
Turnover				
Pubs & Bars	877	866	877	866
Restaurants	619	609	619	609
Retail	1,496	1,475	1,496	1,475
SCPD	17	6	17	6
	1,513	1,481	1,513	1,481
Operating profit				
Pubs & Bars	177	190	177	190
Restaurants	96	98	96	98
Retail	273	288	273	288
SCPD	2	1	2	1
Operating exceptional items:				
major	–	–	(5)	–
Total operating profit	275	289	270	289
Non-operating exceptional items:				
major	–	–	(42)	–
minor	–	(2)	–	(2)
Profit before interest	275	287	228	287
Finance charge	(76)	(86)	–	–
Net interest payable	–	–	(55)	(43)
Exceptional interest charge	–	–	(8)	–
Profit before taxation	199	201	165	244
Taxation	(64)	(65)	(40)	(80)
Profit for the financial year	135	136	125	164
Dividends	–	–	(29)	–
Retained profit	135	136	96	164
Earnings per share				
Basic	–	–	17.0p	22.3p
Pro forma	18.4p	18.5p	–	–

The statutory group profit and loss account is shown on page 24.

The Mitchells & Butlers group was created on its separation from Six Continents PLC on 15 April 2003. The shares of its holding company, Mitchells & Butlers plc, have been listed on the London Stock Exchange since this date.

The statutory results for the year, included on pages 24 to 49 of the financial statements, combine the pre and post separation results of the Group on a statutory basis, derived from the underlying accounts of the legal entities comprising the Group. However, due to the capital restructuring that took place at the time of the separation, these statutory accounts do not readily facilitate an understanding of Mitchells & Butlers as a stand-alone group. Pro forma financial statements are therefore presented on pages 22 and 23 in order to show the results for the Group as if it had been an independent company since 1 October 2001, operating under the financing and taxation structure put in place at the time of the separation.

Strategy, estate positioning and development

Mitchells & Butlers is one of the UK's leading operators of managed pubs, bars and restaurants with an estate of 2,077 sites as at 30 September 2003. These businesses are predominantly large freehold sites of which some 70% are located in residential areas. Average unit sales of over £14,000 per week are three times the industry average and with 3% of the UK's 60,000 pubs, Mitchells & Butlers has a 9% share of pub retail sales.

The Group builds its market position from this quality asset base by driving sales growth through superior product, price and service offers and by developing brands and formats to suit developing consumer needs.

The business seeks to maximise returns from its £3.5bn asset base by identifying the most appropriate operating format or brand for each trading property. Mitchells & Butlers operates a spectrum of brands and formats from the overtly branded, through a range of operating formats that become less tightly specified, to individual character pubs. Brands such as O'Neill's and Harvester trade under a common brand name and with a consistent design, product range, service style and promotional programme. Offers such as Ember Inns or Vintage Inns retain their individual pub name but with the brand endorsement and a very defined customer offer. Other formats such as Metropolitan Professional pubs trade individually to the consumer's taste whilst maintaining a common operational template. Our individual pubs operate to templates appropriate for their markets but with the ability to be flexible and cater for local opportunities. For example, our 'classic' town and City Centre pubs, many in buildings with historic character, trade on the basis of their local reputation but with the benefit of our standard operating procedures and disciplines.

The Group has been pursuing the development of 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 18 Business Franchises trading.

The estate is proactively reviewed on a site by site basis to maximise value and asset productivity, be this through operational action, development, selective disposal or transfer to a Business Franchise.

Overall performance

Total sales were £1,513m, up 2.2% on last year. This reflects an improved second half trend due to the impact of increased sales and marketing activity, together with good summer weather. The residential sector has continued to perform well with some recovery seen in the weaker High Street and Central London markets.

In total, same outlet like-for-like (i.e. invested and uninvested) sales for the year were down 0.4%, down 2.4% on an uninvested basis. Residential areas were up 0.9% (down 1.5% on an uninvested basis) and the High Street declined 3.2%, (down 5.2% on an uninvested basis), reflecting competitive pressures and continued weakness in the Central London market.

In the last 20 weeks of the year, there was a significant improvement over the first half, same outlet like-for-like sales up 1.8% and uninvested like-for-like sales flat at 0.1% down. Both the High Street and Central London markets improved over the latter part of the year with same outlet like-for-like sales down 0.6% (down 3.0% on an uninvested basis). Residential areas saw a strong sales performance with same outlet like-for-like sales up 3.3% (up 0.8% on an uninvested basis).

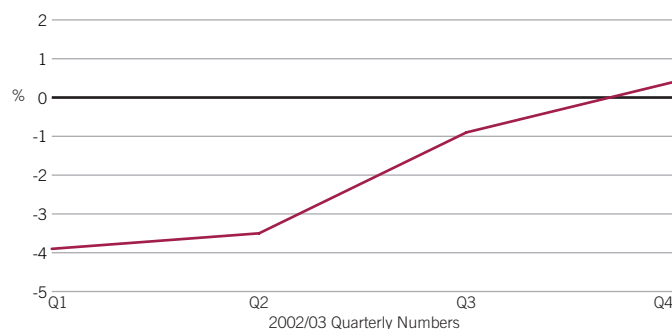
The second half performance reflected the successful implementation of plans to drive sales volumes and gross profits. Sales and marketing activity has been focused on improving customer choice by extending the drinks range and by further evolving food menus, combined with margin reinvestment into carefully targeted competitive pricing and promotional activity. This has been supplemented by further investment in training of service and selling skills.

Growing headroom under the Group's tied beer supply contracts has allowed the introduction of new beer brands into the estate, in particular Stella Artois, which was in nearly 1,200 pubs by the year end. Many pubs now offer a choice of two or more draught beer brands in each of the main product categories which has allowed us to increase the value offered to the consumer through improved choice at a range of prices.

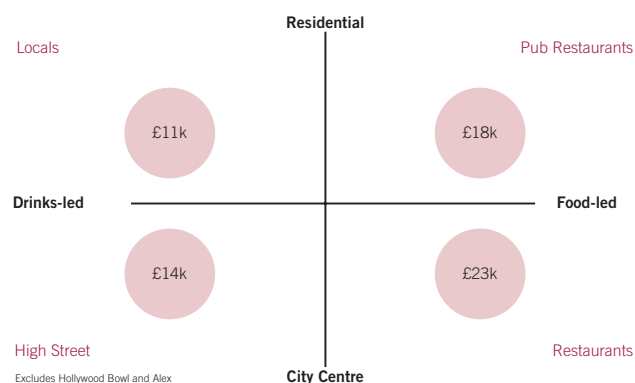
By focusing promotional activity on those products that offer attractive margins, the benefit of mix improvements has helped to offset the margin investment, and more importantly, further increase cash gross profit.

Additional purchasing gains have been made in the year. These, together with mix benefits from the increased product range, have held gross margins broadly unchanged for the year as a whole despite price reductions and the increased promotional activity implemented during the second half.

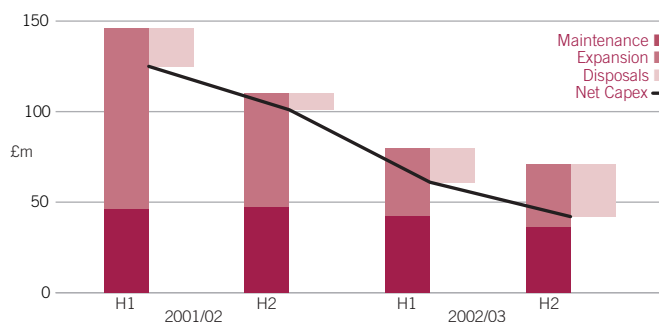
Uninvested like-for-like sales growth



Average weekly take



Capital expenditure analysis



The Group has continued to deliver efficiencies in costs to help offset increasing regulatory and other externally driven cost increases. Staff productivity improved by some 4.5% over the year through the application of standardised sales forecasting and staff rostering processes. Overhead reorganisation and reduction, implemented around the half year, has delivered as planned, the first £5m of a £10m annualised cost saving. Externally driven costs from the increase in the National Minimum Wage, changes in legislation affecting holiday pay and employers National Insurance contributions and increases

Operating and financial review continued

in business rates, together with the increased costs of pension provision and insurance totalled £18m.

Operating profit for the year, before exceptional items, was £275m, 4.8% down on last year and EBITDA at £374m was flat. The Group continued to generate strong cash returns with a post tax cash return on cash capital employed above 10%.

The capital investment programme has been focused on maintaining the high quality of the estate and adding incremental returns through expansionary investment where opportunities arise. Of the £151m gross capital expenditure, £73m was accounted for by expansionary investment. A total of 134 expansionary projects were completed on existing outlets and 14 new site acquisitions opened. This investment is delivering strong incremental pre tax returns of 13%, well above the Group's cost of capital. The average capital investment in development projects is some £240k and around £2m per site acquisition.

Net capital expenditure for the year was £103m down £123m against the prior year due to a sharp reduction in expansionary capital driven by the completion of the programme of converting the former Allied sites, the reduction in the number of projects and the average spend per project, as well as £48m of disposal proceeds. This level of proceeds exceeded initial expectations and resulted from opportunistic disposals of 42 sites primarily for alternative use.

Pubs & Bars

Sales in the Pubs & Bars division grew 1.3% to £877m following an improved performance in the second half. The strongest performance was in the residential estate led by Ember Inns and the Sizzling Pub Co. These drink-led brands with their distinctive food offers continue to prove a strong competitive offer in the local market. Trading conditions in the High Street and Central London have remained more difficult, although some recovery has been seen in the second half. Overall, uninvested like-for-like sales were down 3.1%, down 0.2% on a same outlet like-for-like basis.

The number of managed pubs and bars reduced by 27 to 1,387 over the year as a result of disposals where higher alternative use values were identified and transfers to Business Franchises where the net return opportunity was higher. The programme of converting outlets to brands and formats continued with the completion of 129 projects during the year, principally conversions to the Ember Inns and Sizzling Pub Co brands and to the Metropolitan Professional formats.

Operating profit of £177m was 6.8% down on last year due to the effects of regulation and difficult trading in Central London and the High Street markets to which the Pubs & Bars division is more exposed.

Restaurants

In the Restaurants division, total turnover grew by 1.6% to £619m. Uninvested like-for-like sales were down 1.5% in

the year and same outlet like-for-like sales were down 0.8%. The suburban residential market remained the strongest led by Toby Carvery and Vintage Inns. The High Street brands are largely located in Central London and their trading performance was influenced by the general weakness in this market.

We are evolving the offer of All Bar One, our contemporary city bars, first launched in 1994, to reflect changing market tastes whilst maintaining its core brand proposition. In our suburban pub restaurants we are extending the drinks range to optimise the bar trade within these brands. In the second half, Harvester successfully reintroduced the 'Earlybird' value-oriented offer to maximise trade during the early evening period.

The Group continues to develop budget hotels where these can be placed alongside food-led outlets so as to add synergistic benefits to both businesses. At the year end the Group owned and managed 24 Express by Holiday Inns and a further 67 sites trading as Innkeeper's Lodges. In total some 3,700 budget hotel rooms are now owned and operated by the Group.

The year saw the opening of 11 new pub restaurants and one Express by Holiday Inn but the net movement in managed outlets was down nine as a result of disposals and transfers to other, non food-led, trading formats.

Sales in the Group's Alex bars in Germany were up 5% during the year. Alex is the leading branded licensed retail chain in Germany offering all day drinking and menus to a wide range of customers. Economic conditions in Germany have shown a slight improvement compared to the start of the year but overall consumer spending continues to be slow.

Operating profit for the Restaurants division of £96m was 2.0% down on last year as a result of external cost increases and the difficult London market.

Standard Commercial Property Developments (SCPD)

The property development business aims to maximise value from the development of the Group's surplus property portfolio. SCPD had a very successful year, generating an operating profit of £2m on turnover of £17m. Profit was driven by the construction and sale of an 80,000 square foot leisure and retail scheme at Middleyard, Burton-on-Trent and the disposal of an ex-bingo club site in London. 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

Major exceptional operating costs of £5m were incurred during the year; £1m of abortive acquisition fees in relation to the potential acquisition of the Scottish & Newcastle retail estate and £4m of operating expenses relating to the securitisation of the business which was completed after the year end. In addition, the Group incurred non operating exceptional costs

of £42m; £32m relating to the separation of the business from Six Continents and £10m of bid defence costs in respect of CMI plc's failed takeover attempt of Six Continents PLC in March of this year.

An exceptional interest charge of £8m arises from the acceleration of facility fee amortisation in respect of the borrowing facilities put in place at the time of separation which were repaid on securitisation of the business on 13 November 2003 (see below).

The tax charge includes an exceptional credit of £9m relating to the above items and a further £22m arising from group relief received from Six Continents before separation.

All of the above exceptional items, together with their related tax credits, have been treated as major exceptional items and have therefore been excluded from the calculations of adjusted and pro forma earnings per share.

Interest

Prior to separation, the Group was principally funded by inter-company loans from Six Continents PLC that bore interest at commercial rates. On separation, the inter-company debt was repaid and replaced with external debt of around £1.3bn under a syndicated loan facility agreement. The interest charge since separation has reflected the terms of this external floating rate borrowing plus the amortisation of the facility fees incurred in connection with their arrangement. Of the total facility fee cost of £15m, £4m has been amortised through the 'normal' interest line in accordance with the period of the original facilities and £8m has been reflected as an exceptional cost to reflect the early repayment of the borrowings on securitisation (see above). The remaining balance of £3m will be expensed in 2004.

Due to the significant changes that were made to the financing structure of the Group on separation, the pro forma financial statements include a finance charge calculated on the basis that the post separation financing structure had been in place since 1 October 2001.

Taxation

The pro forma tax charge and the statutory tax charge, excluding the impact of major exceptional items, represent an effective tax rate of 32.3% which is higher than the UK statutory tax rate of 30% primarily due to non-allowable items, in particular the depreciation of properties. Including the effect of major exceptional items and prior year items, the statutory tax rate is 24.0%.

Earnings per share

The pro forma financial statements show a pro forma earnings per share of 18.4p for the year broadly flat on the equivalent pro forma earnings per share for 2002. This figure has been calculated to show the underlying performance of the Group on the basis that the post separation capital and taxation structure had always been in place. It also excludes all major exceptional items and related tax thereon.

Cash flow

	Pro forma 2003 £m	Pro forma 2002 £m	2003 £m	2002 £m
Operating profit	275	289	275	289
Depreciation and amortisation	99	87	99	87
Other non-cash items	–	(1)	–	(1)
EBITDA	374	375	374	375
Working capital movement	(3)	(4)	(3)	(4)
Additional pension contributions	(27)	(10)	(27)	–
Net cash inflow from operating activities	344	361	344	371
Purchase of tangible fixed assets	(151)	(256)	(151)	(256)
Sale of tangible fixed assets	48	30	48	30
Net capital expenditure	(103)	(226)	(103)	(226)
Operating cash flow after capital expenditure	241	135	241	145
Net interest paid			(49)	(43)
Tax paid			(44)	(82)
Normal cash flow			148	20
Separation costs paid			(36)	–
Facility fees paid			(15)	–
Other net cash flows			1	–
Net cash flow			98	20

The statutory group cash flow statement is shown on page 27.

On a statutory basis, earnings totalled £125m in 2003 compared with £164m in 2002, and basic earnings per share were 17.0p and 22.3p respectively. In order to remove the distorting effect of major exceptional items, an adjusted earnings per share is also presented which was 20.3p compared with 22.3p in 2002.

Dividends and returns to shareholders

The dividend charge for the year of £29m represents the proposed final dividend on ordinary shares of 5.65p per share. Subject to approval at the AGM the final dividend will be paid in February 2004 to shareholders registered on 19 December 2003. On 9 April 2003, shareholders of Six Continents PLC also received an interim dividend of 6.6p per share for the period prior to separation.

Following the successful completion of the securitisation, a special dividend will be paid to shareholders of 68p per share on 8 December 2003, at a total cost of £501m. This will be recorded as an interim dividend in the 2004 financial statements.

The Board has previously announced its intention to pay an ordinary dividend of 9.5p per share in respect of 2004, comprising an interim dividend of 2.85p and a final dividend of 6.65p.

Cash flow and net debt

The operations of the Group continued to generate significant cash with EBITDA of £374m, compared to £375m last year.

Operating and financial review continued

Pro forma net operating cash inflow after capital expenditure and disposals was £241m compared to £135m last year. The reduction in capital expenditure and the benefit of proceeds from selective site disposals have driven this improvement. Net capital expenditure reduced from £226m to £103m this year and additional pension contributions of £27m were financed from current year operating cash flows.

Following separation and £702m return of capital to Six Continents' shareholders in April 2003, the Group had net debt of £1,265m. At the year end this had reduced to £1,228m.

Share price and market capitalisation

At 30 September 2003, the share price was 229.5p compared with 222.5p on 15 April 2003, the end of the first day that the Company's shares were listed on the London Stock Exchange. Throughout this period, the shares have been a constituent of the FTSE 100 index. The market capitalisation of the Group at 30 September 2003 was approximately £1.7bn.

Treasury management

Prior to separation, the financial risks faced by the Group were identified and managed by Six Continents group Treasury. On separation, the Group established a new Treasury department to take over this function.

The activities of the Treasury function are carried out in accordance with Board approved policies and are subject to regular audit. The Treasury function does not operate as a profit centre. During the period under review, treasury dealing activity fell into the following categories; spot foreign exchange deals, sterling and Euro money market deposits and funding utilising the £1.5bn syndicated bank loan facility put in place at separation. In addition, the Treasury department has played a key role in the refinancing of the business through the securitisation completed in November 2003, ensuring the necessary procedures are in place for the Company to comply with its terms.

The Treasury function is 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 effect on the Group's results. Consequently no foreign exchange hedging transactions were undertaken in the financial markets.

Permitted interest rate hedging methods include the use of fixed rate debt, interest rate swaps, options (such as caps) and forward rate agreements. However, since separation the Group's borrowings under its syndicated bank loan facility remained on a fully floating basis due to the imminent refinancing.

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.

Securitisation

On 13 November 2003, the Group announced that it had successfully completed a securitisation of the majority of its UK pubs and restaurants business, raising a total of £1.9bn. The proceeds from the securitisation were used to repay the Group's outstanding borrowings of £1,243m 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 special dividend of 68p per share payable on 8 December 2003.

The terms of the securitisation were developed and agreed so as to put in place the optimal financing structure for the business, maintaining appropriate flexibility to support the Group's long-term strategy of owning and developing high take, high quality, managed pubs.

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

Pensions

On an FRS 17 basis, the Group's pension schemes showed a deficit of £243m at 30 September 2003. The schemes are also in deficit on an actuarial basis and the Company has agreed with the Trustees to make additional cash contributions of £55m over the next three years, £35m of which was paid on 14 November 2003. These amounts are in addition to the £31.5m of additional contributions pledged following the separation, of which £27m has already been paid into the schemes.

Accounting policies

There have been no changes to accounting policies during the year.

The financial statements have been 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.

The Group continues to account for pensions in accordance with Statement of Standard Accounting Practice (SSAP) 24 'Accounting for pension costs'. The additional disclosures required by the transitional arrangements of Financial Reporting Standard (FRS) 17 'Retirement Benefits' are given in note 7 to the financial statements.

Directors' report

The Directors present their report for the financial year ended 30 September 2003.

Principal activities

The Group is a leading UK operator of managed pubs, bars and restaurants. Its predominantly freehold estate comprises over 2,000 sites throughout the UK and over 40 sites 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 and the Business Review 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 separation from Six Continents

The Company was incorporated on 2 October 2002. It is the vehicle that was used to separate the leisure retailing interests from Six Continents PLC and became an independent listed company on 15 April 2003. Details of the terms for shareholders of that separation, including the related return of capital, are set out under Investor Information on pages 27 and 28 of the Annual Review and Summary Financial Statement.

Securitisation and return of shareholder funds

Following separation, the Company has refinanced its operations through a securitisation of its UK pubs and pub restaurants business. Since the year end, £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.

On 1 December 2003, in connection with the proposed return of funds to shareholders, the Company in General Meeting approved a share consolidation of 12 new ordinary shares for every 17 existing ordinary shares which took effect before the opening of business on 2 December 2003. On 8 December 2003, £501m will be returned to shareholders by special dividend of 68p per share, existing on 1 December 2003.

Dividends

The Board recommends:

- a final dividend for the year ended 30 September 2003 of 5.65p per share to be paid on 16 February 2004 to shareholders on the register at close of business on 19 December 2003.

The Board has announced that it intends to recommend:

- an interim dividend for the year to 30 September 2004 of 2.85p per share; and
- a final dividend for the year to 30 September 2004 of 6.65p per share.

Employees

The Group employed an average of 37,556 people in 2003. 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, 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 European Forum to bring together senior managers and employee representatives to discuss common issues.

Investors in people

Mitchells & Butlers continues to support Investors In People ('IIP') actively and has maintained accreditation for the tenth successive year. It regards IIP, with its requirement for measurement against a rigorous national standard, as an excellent, disciplined process for communicating goals and objectives to employees and ensuring that they are given the skills required to deliver business strategies. In this way, individuals and the business both benefit.

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 others and recognises that it has a responsibility to act in a way that respects the social, economic and environmental wellbeing of the wider world. Our business conduct guidelines set out the standards of behaviour expected from those working for the Company. The Group's Environmental and Social Responsibility policies are available on the Company's website.

Directors' report continued

Share capital

The Company's shares were listed on the Official List and were admitted to trading on the London Stock Exchange on 15 April 2003 with 734,461,900 ordinary shares in issue. Subsequently, 1,761,879 shares were issued under share schemes and 736,223,779 shares were in issue at 30 September 2003.

Since the year end, shareholders have approved a share consolidation related to the return of funds to shareholders, whereby every 17 existing ordinary shares were replaced by 12 new ordinary shares on 2 December 2003.

Substantial shareholdings

As at 3 December 2003, the Company had been notified of the following substantial interests (3% or more) in its shares:

Capital Group Companies, Inc	6.8%
Legal & General Group Plc	3.4%
Goldman Sachs Group Inc	3.1%
AXA SA	3.0%

Employee share plans

Mitchells & Butlers is keen to encourage employee participation in the Group's success through share ownership and on separation from Six Continents it established the following plans:

Sharesave plan

In May 2003, options were granted to 2,495 employees over 3,995,490 shares at 169p per share, a 20% discount to the market price.

Share incentive plan

425,807 shares were acquired by the Share Incentive Plan Trustee, Hill Samuel ESOP Trustee Ltd, and allocated as free shares to 8,015 eligible employees subject to the plan rules.

Executive share option plan

In May 2003, options were granted to 60 employees over 4,263,720 shares at 219p per share. Options under this scheme are only exercisable if a performance condition is met and for options granted in 2003, the condition is set out on page 13.

Under the terms of the separation from Six Continents, certain option holders under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents options for new options over the Company's shares. As a result of this exchange, 26,478,726 shares were put under option at prices ranging from 181p to 364p.

Performance restricted share plan

This plan replaced the existing Six Continents long term incentive plan for Mitchells & Butlers employees. In 2003, 19 members have been invited to participate subject to the achievement of performance conditions as set out on page 13. No shares vested during the year.

Short term deferred incentive plan

This plan enables senior executives to take all or part of

their annual cash bonuses in shares, together with a related award of shares by the Company, with deferred release over three years.

No shares were released during the year and Executive Directors' maximum accrued entitlements for the year for future release are set out on page 17.

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 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 Company receives a valid invoice.

Going concern

The financial statements which appear on pages 22 to 49 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.

Charitable donations

The Company supports community initiatives and charitable causes and in 2003 donated £71,000. In addition to these cash contributions, the Company's 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 £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 2004 to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at 12 noon on Thursday, 12 February 2004 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
3 December 2003

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'). In the opinion of the Board, the Company complied as soon as practicable following its listing with the Code requirements as they applied to companies with a year ended on 30 September 2003. The Senior Independent Director was appointed after the year end.

The Company is aware of the revisions made to the Code ('the Revised Code') for companies with years beginning on or after 1 November 2003 and is taking steps to comply in those areas where it does not already do 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, including an annual report on the operation of the monitoring processes set out above to support the Board's annual statement on internal control; 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 30 September 2003. 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. In line with recent developments in good corporate governance and to comply with the Group's US obligations, the Group is developing 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'). The Group anticipates reporting on the effectiveness of its internal financial controls under the COSO framework in the year ending 30 September 2005.

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 Directors and three independent Non-Executive Directors. In view of the requirement of the Revised Code that at least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors, the Board intends to appoint an additional Non-Executive Director in 2004.

There are nine regular Board meetings a year and further ad hoc meetings to consider matters which are time critical. There have been six meetings since the Company was listed. Sir Tim Lankester was not able to attend one meeting, otherwise there was full attendance.

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 its terms of reference, which are published on the Company's website.

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.

Corporate governance continued

The following were Directors of the Company during the period since listing:

	Position	Date of appointment
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, Restaurant Group	15.4.03
Sir Tim Lankester	Independent Non-Executive Director	16.5.03
Karim Naffah	Finance Director	15.4.03
Sara Weller	Senior Independent Non-Executive Director	15.4.03

The following were Directors of the Company prior to listing. They received no remuneration in respect of their appointments.

	Appointed	Resigned
Hackwood Directors Ltd	2.10.02	10.2.03
Hackwood Secretaries Ltd	2.10.02	10.2.03
Sir Ian Prosser	10.2.03	15.4.03
Richard North	10.2.03	15.4.03
Robert Larson	10.2.03	15.4.03
Bryan Sanderson	10.2.03	15.4.03
Sir Howard Stringer	10.2.03	15.4.03

The current Directors' biographical details are set out on page 24 of the Annual Review and Summary Financial Statement 2003, and these include their main commitments outside the Company.

All members of the Board will retire and offer themselves for reappointment at the Annual General Meeting on 12 February 2004. Details of the Executive Directors' service contracts are set out on page 15. The Chairman and the three 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.

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 approved by the Board.

Senior Independent Director

Sara Weller has been appointed as Senior Independent Non-Executive Director.

Committees

To support the principles of good governance, the committee structure operates as explained below. The committees each have written terms of reference approved by the Board, which are on 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 25 of the Annual Review and Summary Financial Statement 2003.

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 succession plans.

Audit Committee

The Audit Committee consists of the three independent Non-Executive Directors. The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board, but, reflecting the recommendation of the Smith Committee, Roger Carr has resigned from the Audit Committee since the year end and will attend at the invitation of the Committee's Chairman.

The Committee, which meets at least four times a year, is chaired by George Fairweather, who, as the finance director of a FTSE 100 company, has current and relevant financial experience. The Committee has met three times since the Company was listed and all members attended on each occasion since their appointment.

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; and
- oversee the process for dealing with complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Committee has agreed for the 2004 financial year, in accordance with the Sarbanes-Oxley Act, to oversee the adoption of a specific Code of Ethics for the Chief Executive, the Finance Director and the Deputy Finance Director, which is consistent with the Company's overall statement of business ethics.

Remuneration Committee

The Remuneration Committee, which is chaired by Sara Weller, comprises the three independent Non-Executive Directors. The Committee wishes to retain the knowledge, experience and judgement of the Chairman of the Board but reflecting the recommendation of the Revised Code, Roger Carr has resigned from the Committee since the year end and will attend by invitation of the Committee's Chairman.

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

Nomination Committee

The Committee consists of the Chairman of the Board, who chairs the Committee, the Senior Independent Director, one other Non-Executive Director and any one Executive Director. Its terms of reference provide that the Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board.

The Company appointed external consultants to find candidates for the one independent non-executive directorship filled since listing. A candidate profile for that search was 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 and committee evaluation

As the Board and committee structure has not yet been in place for a year, no formal performance evaluation has been carried out. The Company expects to establish such a process during 2003/04.

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 three independent Non-Executive Directors. In the light of the requirements of the Revised Code for at least half the Board, excluding the Chairman, to be independent Non-Executive Directors, the Company intends to appoint an additional independent Non-Executive Director in 2004.

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. 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.

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.mbpplc.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 will be present to answer questions.

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 ('the Code'), Schedule 7A to the Companies Act 1985 (as introduced by the Directors' Remuneration Report Regulations) and the UKLA Listing Rules. The Company is aware of the Code's requirements for companies with financial years beginning on or after 1 November 2003 and is taking steps to comply in those areas where it does not already do so.

This report will be put to shareholders for approval at the forthcoming Annual General Meeting.

The Remuneration Committee

The Committee was formed on 13 April 2003 and during the period under review has consisted of the following Non-Executive Directors:

- Sara Weller (Chairman)
- Roger Carr
- Sir Tim Lankester
- George Fairweather

Since the period under review and reflecting the Revised Code, Roger Carr, the Chairman of the Board, has ceased to be a member of the Committee.

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

During the period since its formation, 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 other HR professionals within the HR department, namely Iain Kirkpatrick and Sheila Mellish. None of these participates in discussions concerning their own remuneration. All of these advisers were originally appointed by the Company and the Committee has agreed to receive their advice on remuneration matters.

The Committee is responsible for determining the 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. The rest of this report deals with the remuneration of Executive and Non-Executive Directors only.

The Committee is expected to meet at least three times a year and since its formation, has met twice. Each member of the

Committee has attended all meetings held since he or she was appointed to the Committee.

Remuneration policy for Executive Directors

The following policy has applied since listing and will apply for the financial year 2004. 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.
- 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.
- 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, 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:

Basic salary

Salary is mainly set at median market levels and is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in comparable companies. Salary levels in the Group and in the wider employment market are also taken into account.

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 in 2003/04 50% is linked to earnings per share and 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.

Bonuses are not pensionable.

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. A bonus award of shares will be deferred for 12 months. 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. STDIP benefits are not pensionable.

Executive Share Option Plan ('EXSOP')

At the discretion of the Committee, grants of EXSOP options will normally be made annually to senior executives; 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, so as to remain within the limits set out 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.

A performance condition, set by the Committee, has to be met before options can be exercised. For options granted in 2003, the Company's earnings per share ('eps') over the three year performance period must increase by at least 4 percentage points per annum 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 over the performance period exceeds the growth in RPI by 3 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 2 percentage points per annum on average over the performance period.

Retesting will be permitted once only, 12 months after the end of the performance period, with measurement from the original base year. If the performance target is not then met, the relevant options will lapse.

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 certify performance against the target.

Executive share options are not pensionable.

Performance Restricted Share Plan ('PRSP')

The PRSP allows Executive Directors and eligible 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 30 September 2003, the measure was based on the achievement of budgeted cost savings and any awards will be made in cash. For the cycle to 30 September 2004 the award will be 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. For the 2002/05 cycle, 50% of the award will be measured by reference to the TSR performance. The comparator group currently consists of:

Mitchells & Butlers	Luminar
City Centre Restaurants	Punch Taverns
Enterprise Inns	Regent Inns
Fuller, Smith & Turner	Whitbread
Greene King	Wolverhampton & Dudley
JD Wetherspoon	Yates

This group of companies was chosen because it consists of competitors and suppliers.

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.

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 ('cash ROCE') 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 cash ROCE exceeds the WACC over the performance period is at least 4.5 percentage points, 100% of the cash ROCE 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

Remuneration report continued

on a straight line basis. Below 3 percentage points there will be no award in respect of this element.

TSR was chosen as a measurement because it allies the interest of management with that of shareholders. The cash ROCE 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 the Company thereby maximising the spread between the two and increasing shareholder value.

Performance measurement under PRSP will be certified by the Company's auditors. Benefits under PRSP are not pensionable.

Rolled over options

On separation, 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 rolled over options are not subject to a performance condition.

Other share plans

Executive Directors may participate in the all-employee plans, the Sharesave Plan and the Share Incentive Plan, but 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 external consultants, having regard to:

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

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. During the period under review Tim Clarke was a non-executive director of Debenhams plc and retained the fees paid for that appointment. The fee for 2002/03 was £37,000.

Performance graph

Throughout the period from the Company's listing on 15 April 2003 to 30 September 2003 the Company has been a member of the FTSE 100 index. The graph below therefore measures the Company's TSR performance, assuming dividends are reinvested, for that period against the FTSE 100 index.

TSR has been calculated in accordance with the requirements of the Directors' Remuneration Report Regulations 2000, except that the period covered is only since the Company's listing in April 2003.

Total shareholder return

Mitchells & Butlers v FTSE 100 – 15/4/03 – 30/9/03



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.

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. The dates of appointment of Non-Executive Directors are set out on page 10. The Chairman Roger Carr's appointment is expressed to expire three years from the separation on 15 April 2003 of the Company from Six Continents. On 12 February 2003, prior to the Company's admission to listing, the Executive Directors, Mike Bramley, Tim Clarke, Tony Hughes and Karim Naffah, each entered into a service contract with the Company which provides for the notice period described above.

Messrs Hughes and Naffah, in their previous contracts with the Six Continents group, however, enjoyed a two year notice period from their employing company and, in their 12 February 2003 contracts with the Company, it was agreed that this provision would continue to apply for 12 months from separation only, i.e. until 15 April 2004. With the exception of these arrangements, the unexpired portion of Executive Directors' contracts is 12 months.

Messrs Bramley, Hughes and Naffah also carried forward a change of control provision from their previous contracts into their 12 February 2003 contracts, which provision will also cease to apply in April 2004, 12 months from separation. This provides that if a change of control occurs within 12 months of the separation and the Director is dismissed within 12 months of this (other than in certain circumstances such as misconduct),

then (i) he will be treated as having completed an additional 24 months' service under the Six Continents Executive Pension Plan (or 12 months, in the case of Mike Bramley) and (ii) he will receive an amount equal to salary plus annual bonus averaged over the previous three bonus periods for a period of 21 months (or 12 months, in the case of Mike Bramley), less any outstanding salary paid after termination and also less the gross pension he would have been entitled to during the relevant period of 21 months (or 12 months, in the case of Mike Bramley).

Tim Clarke has neither a two year notice period nor a change of control provision in his service agreement of 12 February 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, will participate in local plans.

The rest of this Remuneration Report on pages 15 to 21 has been audited by Ernst & Young LLP.

Annual emoluments

As the Directors have been in office only since the Company's separation from Six Continents in April 2003, the emoluments tables below are drawn up on the following basis:

- All Directors' emoluments for the period since taking up their appointments to the Board of Mitchells & Butlers plc.
- For Roger Carr and Tim Clarke, who were directors of Six Continents PLC, their emoluments from that company for the period from 1 October 2002 to 14 April 2003.
- Prior year comparatives are included for Roger Carr and Tim Clarke based on their emoluments from Six Continents PLC. No comparatives are shown for the other Directors as they were not previously directors of Six Continents PLC.

Remuneration report continued

Directors' emoluments from Mitchells & Butlers plc since 15 April 2003

	Basic salaries and fees £000	Short-term performance payments £000	Benefits £000	Total emoluments (excluding pensions) £000
Executive Directors				
Mike Bramley	150	82	13	245
Tim Clarke	232	126	13	371
Tony Hughes	150	82	9	241
Karim Naffah	162	89	6	257
Non-Executive Directors				
Roger Carr	92	–	5	97
George Fairweather	23	–	–	23
Sir Tim Lankester†	16	–	–	16
Sara Weller	23	–	–	23
Total 2003	848	379	46	1,273

†Appointed 16 May 2003.

Emoluments earned as directors of Six Continents PLC

	Basic salaries and fees £000	Short-term performance payments £000	Benefits £000	Total emoluments (excluding pensions)	
				1.10.02 to 14.4.03 £000	1.10.01 to 30.9.02 £000
Executive Director					
Tim Clarke	322	26	15	363	694
Non-Executive Director					
Roger Carr	56	–	–	56	46

The figures above represent emoluments earned during the periods shown.

'Short-term performance payments' include the annual performance related cash bonus and the value of any shares allocated under the Six Continents Employee Profit Share Scheme (2001/02) and the Mitchells & Butlers Share Incentive Plan (2002/03).

Tim Clarke's annual performance related cash bonus of £26,000 for the period 1 October 2002 to 14 April 2003 was deferred into shares under the Six Continents Special Deferred Incentive Plan and he became entitled to a 0.5 times matching award of shares valued at £13,000. The satisfaction of that entitlement by Mitchells & Butlers plc is described in the note on page 17.

'Benefits' incorporate all tax assessable benefits arising from employment with the Company or Six Continents PLC, which relate in the main to the provision of a company car.

There were no payments for loss of office relating to the separation or for any other reason.

Short Term Deferred Incentive Plan

The Executive Directors may under the Short Term Deferred Incentive Plan receive all or part of their annual cash bonus in shares deferred for 12 months. If the Director is still employed by the Company at that stage, the Company may also provide a related matching share award. The maximum award by the Company of matching shares will be 0.5 times the bonus shares deferred. Share entitlements under the STDIP are released in equal tranches over a three year period, subject to the Director remaining in the Company's employment.

The table below shows the maximum matching shares receivable if all of the Directors' 2003 bonuses are deferred into share awards.

Director	Awards held at 15.4.03	Ordinary share awards granted during period to 30.9.03	Year earned	Vesting date	Total awards over ordinary shares at 30.9.03	Value* £000
Mike Bramley	–	17,375	2003	9.12.04	17,375	40
Tim Clarke	–	26,731	2003	9.12.04	26,731	61
Tony Hughes	–	17,375	2003	9.12.04	17,375	40
Karim Naffah	–	18,712	2003	9.12.04	18,712	43

Note

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

*Based on the share price at 30 September 2003 – £2.30.

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.

Remuneration report continued

Directors' pensions benefits

Director	Age at 30.9.03	Directors' contributions (note 1) £	Transfer value of accrued pension		Increase in transfer value over year less Directors' contributions £	Increase in accrued pension (note 2) £ pa	Increase in accrued pension (note 3) £ pa	Accrued pension at 30.9.03 (note 4) £ pa
			30.9.02 £	30.9.03 £				
Mike Bramley	52	11,600	1,204,100	2,054,200	838,500	41,100	37,400	164,600
Tim Clarke	46	14,700	1,261,000	2,022,800	747,100	24,100	18,300	217,300
Tony Hughes	55	12,800	716,500	1,081,600	352,300	17,000	15,200	74,700
Karim Naffah	40	13,500	457,200	733,400	262,700	19,300	16,700	105,500

Note 1 Contributions paid in the year by the Directors under the terms of the plans. Of the amounts for Messrs Bramley, Hughes and Naffah, £6,700, £7,100 and £7,300 respectively were their contributions during the period since the Company was listed.

Note 2 The absolute increase in accrued pension during the year.

Note 3 The increase in accrued pension during the year, excluding any increase for inflation.

Note 4 Accrued pension is that which would be paid annually on retirement at 60, based on service to 30 September 2003.

Note 5 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.

Note 6 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.

1. Normal pension age

The normal pension age is 60.

2. 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.

3. 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.

4. 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.

5. Other discretionary benefits

Other than the discretionary pension increases mentioned in 4, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

Performance Restricted Share Plan ('PRSP')

The PRSP was introduced on separation, initially to replace the Six Continents Long Term Incentive Plan for Mitchells & Butlers executives. In 2003, there were three cycles of the plan in operation. The first two were to replace participation in the final cycles of the Six Continents' plan.

The awards made in respect of the performance period ended 30 September 2003, which are to be paid in cash, were:

Director	Awards held at 15.4.03 £000	Pre-tax awards granted during period to 30.9.03 £000	Total pre-tax awards held at 30.9.03 £000
Mike Bramley	–	98	98
Tim Clarke	–	150	150
Tony Hughes	–	98	98
Karim Naffah	–	105	105

This award was based on a twelve months' performance period to 30 September 2003 where the performance measure related to the achievement of budgeted cost savings. The award is to be paid in cash, equivalent to 30% of salary.

The Executive Directors are included in the cycles ending on 30 September 2004 and 30 September 2005 and the maximum potential pre-tax value of their awards, if performance targets are achieved, is:

Director	Awards held at 15.4.03 £000	Awards granted during period to 30.9.03 max potential entitlement		Max potential entitlement at 30.9.03 £000
		2004* £000	2005** £000	
Mike Bramley	–	195	293	488
Tim Clarke	–	300	450	750
Tony Hughes	–	195	293	488
Karim Naffah	–	210	315	525

The above awards, if achieved, arise from:

* An eighteen months' performance period to 30 September 2004 where the performance measure relates to the Company's total shareholder return against a group of 11 other comparator companies. Any award will be made in shares and will be graded, according to where the Company finishes in the comparator group, between 60% of salary for first or second position and 12% of salary for sixth position. Below sixth position there will be no award.

** A thirty months' performance period to 30 September 2005 where the performance measure relates firstly to the Company's total shareholder return performance and secondly to the Company's 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 salary.

Further details of the performance measures are set out on pages 13 and 14.

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

Remuneration report continued

Directors' options

Directors' options					Weighted average option price	Option price
	Ordinary shares under option					
Director	30.9.03	Granted	Rolled over	15.4.03		
Mike Bramley						
			443,981		260.07p	
		296,800				219p
A	97,704			–	214.47p	
B	346,277			–	272.93p	
C	296,800			–	219.00p	
Total	740,781	296,800	443,981	–	243.61p	
Tim Clarke						
			977,319		263.59p	
		9,423				169p
		456,620				219p
A	250,245			–	213.70p	
B	727,074			–	280.76p	
C	466,043			–	217.99p	
Total	1,443,362	466,043	977,319	–	248.86p	
Tony Hughes						
			553,316		262.97p	
		5,473				169p
		296,800				219p
A	144,189			–	214.47p	
B	409,127			–	280.07p	
C	302,273			–	218.09p	
Total	855,589	302,273	553,316	–	247.12p	
Karim Naffah						
			719,279		228.81p	
		319,630				219p
A	437,302			–	195.89p	
B	281,977			–	279.87p	
C	319,630			–	219.00p	
Total	1,038,909	319,630	719,279	–	225.79p	

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

Rolled over options are exercisable over the Company's shares under the terms of the Six Continents Executive Share Option Scheme. Options granted during the year are exercisable under the Mitchells & Butlers Executive Share Option Plan, the performance condition for which is set out on page 13.

Options granted during the year are exercisable between 27 May 2006 and 27 May 2013 subject to the achievement of performance conditions where applicable. The latest date that any of the above rolled over options are exercisable is October 2012.

Shares under option at 30 September 2003 are designated as:

- A. where the options are exercisable and the market price per share was above the option price at 30 September 2003;
- B. where the options are exercisable but the market price per share at 30 September 2003 was below the option price; and
- C. where the options are not yet exercisable.

The market price on 30 September 2003 was 230p and the range during the period from listing on 15 April 2003 to 30 September 2003 was 206p to 257p per share.

Directors' shareholdings	Ordinary shares of 5p	
	30.9.03	15.4.03*
Executive Directors		
Mike Bramley	10,106	9,125
Tim Clarke	297,081	102,341
Tony Hughes	4,421	3,349
Karim Naffah	26,692	17,021
Non-Executive Directors		
Roger Carr	1,512	1,512
George Fairweather	–	–
Sir Tim Lankester	–	–†
Sara Weller	–	–

*Date of admission of shares to listing.

†As at date of appointment.

The above shareholdings are all beneficial interests and include shares held on behalf of the Executive Directors by the Trustees 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.

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.

In the period from 1 October 2003 to 30 November 2003 there has been no change in the Directors' interests.

Approved by the Board

Sara Weller

Chairman of the Remuneration Committee
3 December 2003

Pro forma group profit and loss account

for the year ended 30 September 2003

	notes	2003 £m	2002 £m
Turnover – continuing operations	2	1,513	1,481
Costs and overheads, less other income		(1,238)	(1,192)
Operating profit – continuing operations	2	275	289
Loss on disposal of fixed assets		–	(2)
Profit on ordinary activities before interest		275	287
Finance charge	3	(76)	(86)
Profit on ordinary activities before taxation		199	201
Taxation	4	(64)	(65)
Profit for the financial year		135	136
Earnings per ordinary share	5	18.4p	18.5p

The pro forma group profit and loss account excludes major exceptional items.

Pro forma group cash flow statement

for the year ended 30 September 2003

	2003 £m	2002 £m
Operating profit	275	289
Depreciation and amortisation	99	87
Other non-cash items	–	(1)
Earnings before interest, taxation, depreciation and amortisation	374	375
Working capital movement	(3)	(4)
Additional pension contributions	(27)	(10)
Net cash inflow from operating activities	344	361
Purchase of tangible fixed assets	(151)	(256)
Sale of tangible fixed assets	48	30
Capital expenditure and financial investment	(103)	(226)
Net cash inflow before interest, tax and dividends	241	135

The pro forma group cash flow statement excludes cash flows relating to major exceptional items.

Pro forma group operating assets statement

30 September 2003

	notes	2003 £m	2002 £m
Intangible assets		11	11
Tangible assets		3,522	3,526
Fixed assets		3,533	3,537
Stocks		43	49
Debtors		84	82
Creditors		(176)	(167)
Net current operating liabilities		(49)	(36)
Total operating assets less current operating liabilities		3,484	3,501
Provisions for liabilities and charges		(4)	(14)
Net operating assets	2	3,480	3,487

Pro forma net operating assets exclude net debt, taxation balances, pension prepayments, dividend creditors and balances relating to exceptional items.

Notes to the pro forma financial statements

1. Basis of preparation

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. These pro forma financial statements therefore present the Mitchells & Butlers group's results on the basis that the post separation financing and taxation structure had been in place since 1 October 2001. However, because of the nature of pro forma financial statements, they cannot give a complete picture of the financial position of the Mitchells & Butlers group.

The Mitchells & Butlers group pro forma financial statements do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985 and are unaudited. They have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and, except as mentioned above, in accordance with applicable accounting standards.

The audited statutory financial statements of the Mitchells & Butlers group for the year ended 30 September 2003 are shown on pages 24 to 49.

2. Segmental information

	2003			2002		
	Turnover £m	Operating profit £m	Net operating assets £m	Turnover £m	Operating profit £m	Net operating assets £m
Pubs & Bars	877	177	2,141	866	190	2,114
Restaurants	619	96	1,314	609	98	1,347
Retail	1,496	273	3,455	1,475	288	3,461
SCPD	17	2	25	6	1	26
	1,513	275	3,480	1,481	289	3,487

3. Finance charge

The pro forma finance charge has been calculated to reflect the post separation capital structure of the Mitchells & Butlers group as if the structure had been in place since 1 October 2001. The charge for the periods before separation has been calculated by reference to the average indebtedness that would have arisen from this capital structure using the interest rates that would have applied under the Group's post separation external borrowings arrangements.

4. Taxation

The pro forma tax charge has been calculated to reflect the pro forma finance charge and excludes the benefits arising from the tax arrangements of the Six Continents group. The effective tax rate implied by the pro forma tax charge is 32.3% (2002 32.2%).

5. Earnings per share

Pro forma earnings per ordinary share are calculated by dividing the pro forma profit for the financial year of £135m (2002 £136m) by 735m (2002 734m) shares, being the weighted average number of ordinary shares of Mitchells & Butlers plc in issue during the year, assuming that the number of shares issued on separation of 734m was the number of shares in issue prior to separation.

Group profit and loss account

for the year ended 30 September 2003

		2003			2002 £m
		notes	Before major exceptional items £m	Major exceptional items £m	Total £m
Turnover – continuing operations	4		1,513	–	1,513
Costs and overheads, less other income	5		(1,238)	(5)	(1,243)
Operating profit – continuing operations	4		275	(5)	270
Loss on disposal of fixed assets	8		–	–	–
Separation costs	8		–	(42)	(42)
Profit on ordinary activities before interest			275	(47)	228
Net interest payable and similar charges	9		(55)	(8)	(63)
Profit on ordinary activities before taxation			220	(55)	165
Tax on profit on ordinary activities	10		(71)	31	(40)
Earnings available for shareholders			149	(24)	125
Dividends on equity shares	11		(29)	–	(29)
Retained profit for the financial year			120	(24)	96
Earnings per ordinary share:	12				
Basic			–	–	17.0p
Diluted			–	–	17.0p
Adjusted			20.3p	–	–

The notes on pages 28 to 49 form an integral part of these financial statements.

Statement of total recognised group gains and losses

for the year ended 30 September 2003

	2003 £m	2002 £m
Earnings available for shareholders	125	164
Exchange differences arising on foreign currency net investments	7	–
Total recognised gains for the year	132	164

Note of historical cost group profits and losses

for the year ended 30 September 2003

	2003 £m	2002 £m
Reported profit on ordinary activities before taxation	165	244
Realisation of revaluation gains of previous periods	1	1
Historical cost profit on ordinary activities before taxation	166	245
Historical cost profit retained for the financial year	97	165

Reconciliation of movement in group shareholders' funds

for the year ended 30 September 2003

	2003 £m	2002 £m
Total recognised gains for the year	132	164
Dividends	(29)	–
Funding with Six Continents group	184	(11)
Arising from separation transaction	(702)	–
Issue of ordinary shares	4	–
Net (decrease)/increase in shareholders' funds	(411)	153
Opening shareholders' funds	2,475	2,322
Closing shareholders' funds	2,064	2,475

The notes on pages 28 to 49 form an integral part of these financial statements.

Balance sheets

30 September 2003

	notes	Group		Company
		2003 £m	2002 £m	2003 £m
Fixed assets				
Intangible assets	13	11	11	–
Tangible assets	14	3,522	3,526	–
Investments	15	–	–	1,743
		3,533	3,537	1,743
Current assets				
Stocks	16	43	49	–
Debtors	17	197	143	597
Amounts falling due within one year		88	82	597
Amounts falling due after more than one year		109	61	–
Investments		3	2	1
Cash at bank and in hand		4	16	–
		247	210	598
Creditors: amounts falling due within one year	18	(508)	(1,060)	(358)
Net current (liabilities)/assets		(261)	(850)	240
Total assets less current liabilities		3,272	2,687	1,983
Creditors: amounts falling due after more than one year	19	(1,001)	(1)	(1,000)
Provisions for liabilities and charges		(207)	(211)	–
Deferred taxation	22	(203)	(197)	–
Other provisions for liabilities and charges	23	(4)	(14)	–
Net assets		2,064	2,475	983
Capital and reserves				
Equity share capital	24, 25	37	–	37
Share premium account	25	4	–	4
Revaluation reserve	25	341	–	–
Profit and loss account reserve	25	1,682	–	942
Owners' investment	25	–	2,475	–
Equity shareholders' funds		2,064	2,475	983

Signed on behalf of the Board

Tim Clarke

Karim Naffah

3 December 2003

The notes on pages 28 to 49 form an integral part of these financial statements.

Group cash flow statement

for the year ended 30 September 2003

	notes	2003 £m	2002 £m
Net cash inflow from operating activities			
Before separation costs		342	371
Separation costs paid		(36)	–
	26	306	371
Returns on investments and servicing of finance			
Interest paid		(51)	(45)
Facility fees paid		(15)	–
Interest received		2	2
Prepaid issue costs paid in respect of the securitisation		(1)	–
		(65)	(43)
Taxation			
UK corporation tax paid		(44)	(82)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(151)	(256)
Sale of tangible fixed assets		48	30
		(103)	(226)
Net cash inflow before management of liquid resources and financing		94	20
Management of liquid resources			
Movement in short-term deposits		(1)	–
Financing			
Issue of ordinary share capital		4	–
Borrowings drawn down under syndicated loan facility		1,350	–
Borrowings repaid		(132)	(1)
Repayment of amounts due to Six Continents group		(831)	6
Net funding flows with Six Continents group		193	(27)
Cash payment to former Six Continents PLC shareholders		(702)	–
		(118)	(22)
Decrease in cash and overdrafts	28	(25)	(2)

Notes to the financial statements

1. Basis of preparation

Separation transaction

The Company was incorporated as Hackplimco (No. 111) plc on 2 October 2002. On 4 February 2003, it changed its name to Mitchells & Butlers plc. On 15 April 2003, its ordinary shares were listed on the London Stock Exchange following the separation of Six Continents' hotels and soft drinks businesses from its leisure retailing business. Following separation, Mitchells & Butlers plc owned the leisure retailing business and InterContinental Hotels Group PLC became the holding company for the hotels and soft drinks businesses. The mechanics of the separation are detailed below.

On 11 April 2003, Mitchells & Butlers plc acquired 100% of the issued share capital of Six Continents PLC following implementation of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. Shareholders of Six Continents PLC were allotted one Mitchells & Butlers plc share and an entitlement to a cash payment of 81p per share for each Six Continents PLC share held. This resulted in the issue of 866,665,032 Mitchells & Butlers plc ordinary shares of £4.20 each plus an undertaking to pay £702m in cash. The cash payment was subsequently made by the Company on 23 April 2003.

On 12 April 2003, the Company acquired the leisure retailing subsidiaries of Six Continents PLC for £1,744m and also received a dividend from Six Continents PLC for the same amount.

On 13 April 2003, the ordinary share capital of Mitchells & Butlers plc was sub-divided and consolidated on a 50 for 59 basis which resulted in a reduction of the number of ordinary shares in issue to 734,461,900 with each share having a nominal value of £4.956.

On 15 April 2003, the Company's investment in Six Continents PLC was revalued to its market value creating a revaluation reserve of £480m. On the same day, the Court approved a reduction in the capital of Mitchells & Butlers plc, the effect of which was to reduce the nominal value of the Company's share capital to 5p per share. Of the total amount reduced of £3,603m, an amount equivalent to the market value of Six Continents PLC of £3,078m was returned to shareholders by the transfer of Six Continents PLC to InterContinental Hotels Group PLC and the issue by that company of ordinary shares to the Company's shareholders and the remainder was credited to distributable reserves. The revaluation reserve became realised at the same time.

Merger accounting

The separation transaction has been accounted for using merger accounting principles as applicable to group reorganisations, although it does not satisfy all the conditions required under Schedule 4A of the Companies Act 1985 and FRS 6 'Acquisitions and Mergers'. The Company acquired Six Continents PLC and the leisure retailing subsidiaries for consideration that included a non-share element equivalent to more than 10% of the nominal value of the share element of the consideration. Schedule 4A and FRS 6 require such transfers to be accounted for using acquisition accounting principles which would have resulted in the restatement at fair value of the assets and liabilities acquired, the recognition of goodwill and the consolidation of post acquisition results only. In the opinion of the Directors, as the rights of shareholders were not affected by these internal company transfers, the financial statements would fail to give a true and fair view of the Group's results and financial position if acquisition accounting had been used. The effects of this departure cannot reasonably be quantified.

Merger accounting would normally require the consolidation of the results, cash flows and net assets of all acquired companies, including Six Continents PLC and its hotels and soft drinks subsidiaries that ultimately formed the InterContinental Hotels group. In the opinion of the Directors, the inclusion of these results, cash flows and net assets in the financial statements would not give a true and fair view as the Company was parent

to Six Continents PLC for three days only in order to give effect to the separation transaction. Accordingly, the results, cash flows and net assets of Six Continents PLC and its hotel and soft drinks businesses have been excluded from these financial statements. The turnover, operating profit, operating cash flow and net assets excluded for the period up to separation are £1,034m (2002 £2,134m), £101m (2002 £252m), £54m (2002 £62m), and £2,519m (2002 £2,891m) respectively.

Therefore, having regard to the overriding requirement under Section 227(6) of the Companies Act 1985 for the financial statements to give a true and fair view of the Group's results and financial position, the financial statements have been 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.

2. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with applicable UK accounting standards.

Fixed assets and depreciation

i 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. To the extent that goodwill denominated in foreign currencies continues to have value, it 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.

ii Other intangible assets

On acquisition of a business, no value is attributed to other intangible assets which cannot be separately identified and reliably measured. No value is attributed to internally generated intangible assets.

iii 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.

iv 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.

v 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.

vi Depreciation and amortisation

Goodwill and other intangible assets are amortised over their estimated useful lives, generally 20 years.

Freehold land is not depreciated.

2. Accounting policies continued

Fixed assets and depreciation continued

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 (owned or leased) 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.

vii 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 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) of goods and services provided in the normal course of business.

Turnover primarily comprises food and beverage sales which are normally 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 continues 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.

Stocks

Stocks are stated at the lower of cost and net realisable value. Work in progress is in respect of property development activities.

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. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

The results of overseas operations are translated into sterling at weighted average rates of exchange for the period. Exchange differences arising from the 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.

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. Major exceptional items are those excluded from the calculation of adjusted earnings per share.

3. 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 (2002 £1 = €1.60) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.44 (2002 £1 = €1.59).

Notes to the financial statements continued

4. 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	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m
Pubs & Bars	877	866	177	190	2,141	2,114
Restaurants	619	609	96	98	1,314	1,347
Retail	1,496	1,475	273	288	3,455	3,461
SCPD	17	6	2	1	25	26
	1,513	1,481	275	289	3,480	3,487
Exceptional items			(55)	(2)		
Net interest payable (excluding exceptional interest charge)			(55)	(43)		
Profit before taxation			165	244		

Due to the nature of the 2003 exceptional items (see note 8), it is not possible to provide a meaningful allocation of the costs to the operating segments. The allocation of the 2002 exceptional items is Pubs & Bars £1m and Restaurants £1m.

	2003 £m	2002 £m
Net operating assets reconciliation		
Net assets	2,064	2,475
Net debt	1,228	817
Corporate taxation	50	59
Deferred taxation	203	197
Pension prepayment	(98)	(61)
Proposed dividend	29	–
Balances relating to exceptional items	4	–
	3,480	3,487

5. Costs and overheads, less other income

	2003 £m	2002 £m
Raw materials and consumables	385	377
Changes in stocks of finished goods and work in progress	6	(5)
Staff costs (see note 6)	385	378
Depreciation of tangible fixed assets	98	86
Amortisation of goodwill	1	1
Hire of plant and machinery	31	30
Property rentals	45	42
Other external charges	292	283
	1,243	1,192

Major operating exceptional costs of £5m (2002 £nil) are included in 'Other external charges'.

Auditors' remuneration paid to Ernst & Young was £0.4m (2002 £0.1m) for audit services and, during the period after separation from Six Continents, £0.2m for non-audit services. These non-audit services were incurred in connection with the securitisation of the business (see note 32). In addition, Mitchells & Butlers was recharged £3.4m by Six Continents PLC for Ernst & Young non-audit services incurred in respect of the separation transaction. There were no non-audit services in 2002.

6. Employees and directors

	2003 £m	2002 £m
Costs		
Wages and salaries	353	352
Social security costs	27	25
Pensions (see note 7)	5	1
	385	378
	Number	Number
Average number of employees, including part-time employees		
Retail	37,549	38,740
SCPD	7	7
	37,556	38,747

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in shares, is given in the Remuneration Report on pages 12 to 21.

7. Pensions

	2003 £m	2002 £m
Regular cost	12	15
Variations from regular cost	(3)	(12)
Notional interest on prepayment	(4)	(2)
Cost of defined benefit arrangements	5	1
Cost of defined contribution arrangements	–	–
	5	1

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 plans are predominantly defined benefit schemes to current members. For new entrants, the plans provide defined contribution benefits. The assets of these 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.

The Group continues to account for pensions in accordance with SSAP 24. 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.

Since 1 April 2003, the Group has made regular contributions to the pension plans of £10m, including £5m prepaid for the year to 30 September 2004, and additional contributions of £27m. The agreed employer contribution rates to the defined benefit arrangements for the year to 30 September 2004 are 11.0% for the MABPP and 27.1% for the MABEPP. In addition, it has been agreed that further additional contributions of £55m will be paid over the next three years, £35m of which was paid on 14 November 2003.

Notes to the financial statements continued

7. Pensions continued

FRS 17 disclosures

The valuations used for FRS 17 disclosures are based on the results of the full actuarial valuations carried out at 31 March 2002 updated by independent qualified actuaries to 30 September 2003. Scheme assets are stated at market value at 30 September 2003 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the pension plans are now closed to new members as defined benefit schemes, 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 on an FRS 17 basis were:

	At 30 September 2003	At 30 September 2002	At 30 September 2001
Wages and salaries increases	4.2%	3.8%	3.9%
Pensions increases	2.7%	2.3%	2.4%
Discount rate	5.3%	5.5%	6.1%
Inflation rate	2.7%	2.3%	2.4%

The combined assets of the MABPP and MABEPP and the expected rates of return were:

	30 September 2003		30 September 2002		30 September 2001	
	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	396	8.0	364	7.5	502
Bonds	4.9	355	4.7	285	5.1	219
Property	8.0	74	8.0	66	7.5	68
Total market value of assets		825		715		789
Present value of scheme liabilities		(1,068)		(913)		(771)
(Deficit)/surplus in the scheme		(243)		(198)		18
Related deferred tax asset/(liability)		73		59		(5)
Net pension (liability)/asset		(170)		(139)		13

	2003 £m	2002 £m
Movement in the (deficit)/surplus:		
At 30 September 2002	(198)	18
Current service cost	(13)	(12)
Past service cost	(1)	–
Contributions	42*	18
Finance (charge)/income	(2)	6
Actuarial loss	(71)	(228)
At 30 September 2003	(243)	(198)

*Includes £5m contributed by Six Continents PLC prior to the separation of the pension schemes.

7. Pensions continued

If FRS 17 had been recognised in the financial statements, the effects would have been as follows:

	2003 £m	2002 £m	
Operating profit charge:			
Current service cost	13	12	
Past service cost	1	–	
	14	12	
	2003 £m	2002 £m	
Finance (charge)/income:			
Expected return on pension scheme assets	48	54	
Interest on pension scheme liabilities	(50)	(48)	
	(2)	6	
	2003 £m	2002 £m	
Actuarial loss recognised in the Statement of Total Recognised Group Gains and Losses (STRGL):			
Actual return less expected return on pension scheme assets	39	(124)	
Experience gains and losses arising on the scheme liabilities	(11)	(23)	
Changes in assumptions underlying the present value of the scheme liabilities	(99)	(81)	
	(71)	(228)	
History of experience gains and losses:	2003	2002	
Difference between the expected and actual return on scheme assets			
Amount (£m)	39	(124)	
Percentage of scheme assets	5%	(17)%	
Experience gains and losses on scheme liabilities			
Amount (£m)	(11)	(23)	
Percentage of the present value of the scheme liabilities	(1)%	(3)%	
Total amount recognised in the STRGL			
Amount (£m)	(71)	(228)	
Percentage of the present value of the scheme liabilities	(7)%	(25)%	
	2003	2002	
	Net assets £m	Profit and loss account reserve £m	Net assets £m
Net assets and reserves reconciliation:			
As reported	2,064	1,682	2,475
Less: FRS 17 net pension liability	(170)	(170)	(139)
SSAP 24 pension prepayment (net of deferred tax)	(69)	(69)	(43)
Restated for FRS 17	1,825	1,443	2,293

Notes to the financial statements continued

8. Exceptional items

	notes	2003 £m	2002 £m
Operating exceptional items			
Securitisation costs*	a	4	–
Abortive acquisition costs*	b	1	–
Total operating exceptional items		5	–
Non-operating exceptional items			
Loss on disposal of fixed assets		–	2
Separation costs*	c	42	–
Total non-operating exceptional items		42	2
Exceptional interest charge*	d	8	–
Total exceptional items before tax		55	2
Tax credit on above items		(9)	(1)
Exceptional tax credit*	e	(22)	–
Total exceptional items after tax		24	1

a Securitisation costs relate to operating expenses incurred in relation to the securitisation of the Group's UK pubs and restaurants business (see note 32).

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

c Separation costs relate 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 existing borrowing facilities which were repaid on securitisation.

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

*Major exceptional items for the purposes of calculating adjusted earnings per share (see note 12).

All exceptional items relate to continuing operations.

9. Net interest payable and similar charges

	2003			
	Before major exceptional items £m	Major exceptional items £m	Total £m	2002 £m
Interest payable and similar charges				
Bank overdrafts and loans	33	8	41	–
Six Continents group	24	–	24	45
	57	8	65	45
Interest receivable	(2)	–	(2)	(2)
Net interest payable and similar charges	55	8	63	43

Interest receivable includes £1m (2002 £1m) from the Six Continents group.

10. Tax on profit on ordinary activities

	2003			2002
	Before major exceptional items £m	Major exceptional items £m	Total £m	£m
Tax charge				
UK corporation tax at 30% (2002 30%)				
Current year	60	(24)	36	60
Prior years	–	–	–	–
Total current tax	60	(24)	36	60
Deferred tax				
Origination and reversal of timing differences	10	(7)	3	20
Prior years	1	–	1	–
Total deferred tax	11	(7)	4	20
Tax on profit on ordinary activities	71	(31)	40	80
Further analysed as tax relating to:				
Profit before exceptional items	71	–	71	81
Exceptional items (see note 8): Operating	–	(1)	(1)	–
Non-operating	–	(6)	(6)	(1)
Interest	–	(2)	(2)	–
Tax credit	–	(22)	(22)	–
	71	(31)	40	80

	2003 %	2002 %
Tax reconciliation		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	1.2	1.6
Capital allowances in excess of depreciation	(4.7)	(7.4)
Other timing differences	0.6	0.2
Net effect of different rates of tax in overseas businesses	(0.6)	0.4
Adjustment to tax charge in respect of prior years	–	(0.1)
Capital gains	–	(0.2)
Exceptional items	(4.7)	–
Effective current tax rate	21.8	24.5
Effective current tax rate before major exceptional items	27.3	24.5

Factors which may affect future tax charges

The key factors which may affect future tax charges include the future capital structure, the availability of accelerated tax depreciation, utilisation of unrecognised losses, changes in tax legislation and the proportion of profits arising overseas.

11. Dividends

The dividend charge for the year of £29m represents the proposed final dividend on ordinary shares of 5.65p per share. If approved, this will be paid on 16 February 2004 to shareholders registered on 19 December 2003, based on the number of shares in issue following the share consolidation (see note 32).

On 9 April 2003, shareholders of Six Continents PLC received an interim dividend of 6.6p per share for the period prior to separation.

Notes to the financial statements continued

12. Earnings per share

Basic earnings per share have been calculated by dividing the earnings available for shareholders of £125m (2002 £164m) by 735m (2002 734m), being the weighted average number of ordinary shares, excluding investment in 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 736m (2002 734m).

In arriving at the weighted average number of shares, 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.

Adjusted earnings per ordinary share are calculated as follows:

	2003 pence per ordinary share	2002 pence per ordinary share
Basic earnings	17.0	22.3
Major exceptional items, less tax thereon	3.3	–
Adjusted earnings	20.3	22.3

Adjusted earnings per share are disclosed in order to show performance undistorted by abnormal 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, adjusted earnings per share above does not give a true indication of the underlying performance of the Group. Pro forma earnings per share, which adjusts for the changes in financing structure, are therefore presented on page 22 of the financial statements.

13. Intangible fixed assets

Group	Goodwill £m
Cost	
At 30 September 2002	14
Exchange	1
At 30 September 2003	15
Amortisation	
At 30 September 2002	3
Provided during the year	1
At 30 September 2003	4
Net book value	
At 30 September 2003	11
At 30 September 2002	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
Cost or valuation			
At 30 September 2002	2,791	931	3,722
Additions	63	85	148
Disposals	(41)	(84)	(125)
Exchange	1	1	2
At 30 September 2003	2,814	933	3,747
Depreciation			
At 30 September 2002	40	156	196
Provided during the year	16	82	98
Disposals	(1)	(67)	(68)
Exchange	(1)	–	(1)
At 30 September 2003	54	171	225
Net book value			
At 30 September 2003	2,760	762	3,522
At 30 September 2002	2,751	775	3,526

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, which at 30 September 2003 amounted to £400m (2002 £404m). In addition, the carrying value of the Group's fixed assets reflects the 1999 revaluation (see below) which at 30 September 2003 amounted to £341m (2002 £342m).

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.

Historical cost

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

	2003 £m	2002 £m
Cost	2,022	1,991
Depreciation	(95)	(82)
Net book value	1,927	1,909

Net book value

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

	2003			2002 £m
	Cost or valuation £m	Depreciation £m	Net book value £m	
Freehold	2,524	(22)	2,502	2,487
Leasehold: unexpired term of more than 50 years	104	(3)	101	97
unexpired term of 50 years or less	186	(29)	157	167
	2,814	(54)	2,760	2,751
Cost or valuation of land and buildings:				
1999 valuation	1,443			
Cost	1,371			
	2,814			

Notes to the financial statements continued

15. Fixed asset investments

Company	Shares in Six Continents PLC £m	Shares in group undertakings £m	Total £m
Cost			
On incorporation	–	–	–
Additions	4,342	1,744	6,086
Pre-acquisition dividend	(1,744)	–	(1,744)
Revaluation	480	–	480
Separation of InterContinental Hotels Group	(3,078)	–	(3,078)
Exchange differences	–	2	2
At 30 September 2003	–	1,746	1,746
Provision for diminution in value			
On incorporation	–	–	–
Provided during year	–	3	3
At 30 September 2003	–	3	3
Net book value			
At 30 September 2003	–	1,743	1,743

On 11 April 2003, the Company acquired 100% of the issued share capital of Six Continents PLC following implementation of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. Shareholders of Six Continents PLC were allotted one Mitchells & Butlers plc share and an entitlement to a cash payment of 81p per share for each Six Continents PLC share held. This resulted in the issue by the Company of 866,665,032 ordinary shares of £4.20 each plus an undertaking to pay £702m in cash. The cash payment was made on 23 April 2003.

On 12 April 2003, the Company acquired the leisure retailing subsidiaries of Six Continents PLC for £1,744m and also received a dividend from Six Continents PLC for the same amount. The dividend was paid out of the pre-acquisition profits of Six Continents PLC and has therefore been credited to the cost of investment. No cash was exchanged in respect of these transactions.

On 15 April 2003, the investment in Six Continents PLC was revalued to its market value of £3,078m creating a revaluation reserve of £480m (see note 25). On the same day and following a Court approved reduction in capital, the investment in Six Continents PLC was transferred to the InterContinental Hotels Group PLC and, in return, InterContinental Hotels Group PLC issued one ordinary share to the Company's shareholders for each share held in the Company. The revaluation reserve became realised at the same time (see note 25).

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 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.

Own shares

On 25 June 2003, Hill Samuel ESOP Trustee Limited, as trustees of the Company's Share Incentive Plan ('SIP'), purchased 425,807 Mitchells & Butlers plc ordinary shares which are held in trust for employees participating in the SIP. The shares have been conditionally gifted to the participating employees and the cost, £1m, has been charged to operating profit. At 30 September 2003, the market value of the shares held in the trust was £977,227.

16. Stocks

Group	2003 £m	2002 £m
Work in progress	19	22
Finished stocks	24	27
	43	49

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

17. Debtors

	Group		Company
	2003 £m	2002 £m	2003 £m
Amounts falling due within one year			
Trade debtors	10	4	–
Amounts owed by group undertakings	–	–	581
Other debtors	36	44	–
Corporate taxation	–	–	13
Prepayments	42	34	3
	88	82	597
Amounts falling due after more than one year			
Pension prepayment	98	61	–
Other prepayments	11	–	–
	109	61	–
Total debtors	197	143	597

18. Creditors: amounts falling due within one year

	Group		Company
	2003 £m	2002 £m	2003 £m
Borrowings (note 20)	234	3	247
Trade creditors	45	46	–
Corporate taxation	50	59	–
Other taxation and social security	39	34	–
Accrued charges	86	59	5
Proposed dividend	29	–	29
Amounts owed to group undertakings	–	–	77
Other creditors	25	28	–
Amount due to Six Continents group	–	831	–
	508	1,060	358

Notes to the financial statements continued

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

	Group		Company
	2003 £m	2002 £m	2003 £m
Borrowings (note 20)	1,001	1	1,000

20. Borrowings

Group	2003			2002		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Overdrafts	13	–	13	–	–	–
Syndicated loan facility	218	1,000	1,218	–	–	–
Loan notes*	2	–	2	2	–	2
Finance leases	1	1	2	1	1	2
Total borrowings	234	1,001	1,235	3	1	4

Company						
Overdrafts	29	–	29			
Syndicated loan facility	218	1,000	1,218			
Total borrowings	247	1,000	1,247			

*The loan notes bear interest at a floating rate, are repayable on demand and are secured on specific assets of the Group. All other borrowings are unsecured.

Analysis by year of repayment	Group		Company
	2003 £m	2002 £m	2003 £m
Due within one year or on demand	234	3	247
Due between one and two years	1	1	–
Due between two and five years	1,000	–	1,000
Total borrowings	1,235	4	1,247

Facilities committed by banks	Group		Company
	2003 £m	2002 £m	2003 £m
Utilised	1,218	–	1,218
Unutilised	282	–	282
	1,500	–	1,500

Unutilised facilities expire within one year.

21. Financial instruments

Prior to the separation of Six Continents, the financial risks faced by the Group were identified and monitored by Six Continents group Treasury. On separation, the Group established a new Treasury department to take over this function. The Group's treasury policy and use of financial instruments are discussed in the Operating and Financial Review on page 6. As explained on page 6, the Group had not entered into any financial derivative transactions between the period from separation to 30 September 2003. The disclosures in this note exclude short-term debtors and creditors where permitted by FRS 13.

Currency and interest rate profile of financial assets and liabilities

	Floating rate	
	2003 £m	2002 £m
Financial assets:		
Sterling	6	16
Euro	1	2
	7	18
Financial liabilities:		
Sterling	(1,235)	(4)
Euro	-	-
	(1,235)	(4)

Financial assets comprise cash of £4m (2002 £16m) and current asset investments of £3m (2002 £2m). Financial liabilities comprise borrowings as disclosed in note 20.

Currency risk

As the Group is predominantly UK based, it does not have any material currency exposures.

Fair values of financial assets and liabilities

	2003		2002	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Cash	4	4	16	16
Current asset investments	3	3	2	2
Borrowings	(1,235)	(1,235)	(4)	(4)
	(1,228)	(1,228)	14	14

Borrowings incur interest at floating rates, based on LIBOR, and their book value therefore approximates to their fair value.

Notes to the financial statements continued

22. Deferred taxation

	Group £m	Company £m
At 30 September 2002	197	–
Profit and loss account	4	–
Other adjustments	2	–
At 30 September 2003	203	–

Analysed as tax on timing differences related to:

	Group		Company
	2003 £m	2002 £m	2003 £m
Fixed assets	126	135	–
Deferred gains	49	49	–
Pension prepayment	29	18	–
Other	(1)	(5)	–
	203	197	–

Tax losses with a value of £5m (2002 £13m), including capital losses with a value of £nil (2002 £9m), 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 £156m (2002 £191m restated). It is not anticipated that any such tax will be payable in the foreseeable future.

23. Other provisions for liabilities and charges

Group	Reorganisation £m	Other £m	Total £m
At 30 September 2002	11	3	14
Utilised	(10)	–	(10)
At 30 September 2003	1	3	4

The reorganisation provision relates to the relocation of the Group's head office which was largely completed during the year. The other provision relates to the cost of exiting property leases, the timings of which are uncertain.

24. Called up share capital

	Number of shares	£m
Authorised		
Redeemable preference shares of £50,000 each	1	–
Redeemable deferred shares of 1p each	2	–
Ordinary shares of 5p each	2,017,764,000	101
	2,017,764,003	101
Called up, allotted and fully paid		
Redeemable preference shares of £50,000 each	–	–
Redeemable deferred shares of 1p each	–	–
Ordinary shares of 5p each	736,223,779	37
	736,223,779	37

The Company issued two ordinary shares of £1 each when it was incorporated as Hackplimco (No. 111) plc on 2 October 2002. On 4 February 2003, it changed its name to Mitchells & Butlers plc.

On 6 February 2003, the two ordinary shares of £1 each in issue were sub-divided into ordinary shares of 1p each and one redeemable preference share of £50,000 and two redeemable deferred shares of 1p each were issued.

On 9 April 2003, 4,000 ordinary shares of 1p each were issued and a 1 for 420 share consolidation took place leaving 10 shares of £4.20 each in issue.

On 11 April 2003, 866,665,032 ordinary shares of £4.20 each were issued to the shareholders of Six Continents PLC (see note 15). The consideration for the shares issued was £3,640m.

On 13 April 2003, all ordinary shares of £4.20 each in issue were sub-divided into ordinary shares of 0.1p each and a 1 for 4,956 share consolidation took place leaving 734,461,900 shares of £4.956 each in issue. The net effect was a 50 for 59 share consolidation of the Company's ordinary share capital.

On 15 April 2003, the Court approved a reduction in the nominal share capital from £4.956 per share to 5p per share. Of the total amount reduced of £3,603m, an amount equivalent to the market value of Six Continents PLC of £3,078m was returned to shareholders by the transfer of Six Continents PLC to InterContinental Hotels Group PLC and the issue by that company of ordinary shares to the Company's shareholders and the remainder was credited to distributable reserves.

On 17 May 2003, the redeemable preference share and redeemable deferred shares were redeemed at par value.

Since 15 April 2003, the Company has issued 1,761,879 ordinary shares of 5p each under employee share schemes for an aggregate consideration of £4m.

	Rolled over options millions	New options millions	Total millions
Options to subscribe for ordinary shares			
Rolled over options on separation	26.5	–	26.5
Granted since separation	–	10.7	10.7
Exercised	(1.8)	–	(1.8)
Lapsed	(0.6)	–	(0.6)
At 30 September 2003	24.1	10.7	34.8

Rolled over options were originally granted under the Six Continents Executive Share Option Schemes. On separation, 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 new options under the following share schemes:

- (i) 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. Options over 3,995,490 shares were granted at an exercise price of £1.69 in June 2003. The options may be exercised up to six months after the maturity of the savings contract.

Notes to the financial statements continued

24. Called up share capital continued

(ii) 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. Options over 4,263,720 shares were granted at an exercise price of £2.19 in May 2003. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 13.

(iii) 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. Options over 2,502,253 shares were granted in May 2003 at an exercise price of £1 per employee. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 13.

25. Share capital and reserves

Group	Share capital £m	Share premium £m	Revaluation reserve £m	Profit and loss account £m	Owners' investment £m	Total £m
At 30 September 2002	–	–	–	–	2,475	2,475
Pre separation retained profit	–	–	–	–	62	62
Pre separation exchange differences	–	–	–	–	6	6
Funding with Six Continents group	–	–	–	–	184	184
Arising from separation transaction	37	–	341	1,647	(2,727)	(702)
Issue of ordinary shares	–	4	–	–	–	4
Post separation retained profit	–	–	–	34	–	34
Post separation exchange differences	–	–	–	1	–	1
At 30 September 2003	37	4	341	1,682	–	2,064

Goodwill eliminated against reserves at 30 September 2003 was £50m (2002 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

Company	Share capital £m	Share premium £m	Revaluation reserve £m	Profit and loss account reserve £m	Total £m
On incorporation	–	–	–	–	–
Issue of shares to acquire Six Continents PLC	3,640	–	–	–	3,640
Revaluation of investments (see note 15)	–	–	480	–	480
Reduction of capital					
– returned to shareholders (see note 24)	(3,078)	–	–	–	(3,078)
– credited to reserves	(525)	–	–	525	–
Realised on disposal of investments	–	–	(480)	480	–
Issue of ordinary shares after separation	–	4	–	–	4
Retained loss for the year	–	–	–	(65)	(65)
Exchange differences	–	–	–	2	2
At 30 September 2003	37	4	–	942	983

The profit and loss account reserve is wholly distributable.

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

26. Reconciliation of operating profit to net cash inflow from operating activities

	2003 £m	2002 £m
Operating profit before major exceptional items	275	289
Depreciation and amortisation	99	87
Other non-cash items	–	(1)
Earnings before interest, taxation, depreciation, amortisation and major exceptional items	374	375
Decrease/(increase) in stocks	6	(5)
(Increase)/decrease in debtors	(34)	7
Increase/(decrease) in creditors	2	(6)
Provisions expended	(4)	–
Net cash inflow from operating activities before expenditure relating to major exceptional items	344	371
Major operating exceptional expenditure	(2)	–
Separation costs paid	(36)	–
Net cash inflow from operating activities	306	371

27. Net cash flow

	2003 £m	2002 £m
Net cash inflow from operating activities before expenditure relating to major exceptional items	344*	371
Net capital expenditure	(103)	(226)
Operating cash flow after net capital expenditure	241	145
Net interest paid	(49)	(43)
Tax paid	(44)	(82)
Normal cash flow	148	20
Issue of ordinary share capital	4	–
Major operating exceptional expenditure	(2)	–
Separation costs paid	(36)	–
Facility fees paid	(15)	–
Prepaid issue costs in respect of the securitisation	(1)	–
Net cash flow	98	20

*Includes £27m of additional pension contributions.

28. Net debt

	At 30 September 2002 £m	Cash flow prior to separation £m	Balances at separation £m	Cash flow after separation £m	At 30 September 2003 £m
Cash at bank and in hand	16	(9)	7	(3)	4
Overdraft	–	–	–	(13)	(13)
	16	(9)	7	(16)	(9)
Current asset investments	2	4	6	(3)	3
Borrowings due within one year	(3)	–	(3)	(218)	(221)
Borrowings due after one year	(1)	–	(1)	(1,000)	(1,001)
Amounts due to Six Continents group	(831)	257	(574)	574	–
	(817)	252	(565)	(663)	(1,228)

Notes to the financial statements continued

28. Net debt continued

Reconciliation of net cash flow to movements in net debt

	2003 £m	2002 £m
Decrease in cash and overdrafts	(25)	(2)
Management of liquid resources	1	–
Financing activities	118	22
Issue of ordinary share capital	4	–
Net cash flow (see note 27)	98	20
Net funding flows with Six Continents group	193	(27)
Cash payment to former Six Continents PLC shareholders	(702)	–
Increase in net debt arising from cash flows	(411)	(7)
Opening net debt	(817)	(810)
Closing net debt	(1,228)	(817)

29. Financial commitments

Operating lease commitments

The Group has annual commitments under operating leases at 30 September 2003 which expire as follows:

	Properties		Other	
	2003 £m	2002 £m	2003 £m	2002 £m
Within one year	1	–	2	2
Between one and five years	3	3	3	3
After five years	37	36	–	–
	41	39	5	5

Capital commitments

	Group	
	2003 £m	2002 £m
Contracts placed for expenditure on fixed assets not provided for in the financial statements	20	33

30. 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.

31. Related party disclosures

The Group had the following transactions with Six Continents group during the year.

	2003 £m	2002 £m
Net interest paid	23	44
Costs recharged, including separation costs	29	9
Pension scheme payments	3	1
Net funding	(184)	11
Total	(129)	65
Amounts due to Six Continents group at the balance sheet date (see note 28)	–	(831)

32. Post balance sheet events

Securitisation

On 13 November 2003, a group company, Mitchells & Butlers Finance plc, issued £1,900m of secured loan notes. The funds raised were used to repay existing bank borrowings of £1,243m with most of the balance set aside to return cash to shareholders (see below).

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

Tranche	£m	Interest	Repayment period	Expected WAL
A1	200	Floating	By instalments 2003 to 2028	7 years
A2	550	5.574%	By instalments 2003 to 2028	13 years
A3	250	Floating	By instalments 2003 to 2028	7 years
B1	350	5.965%	By instalments 2003 to 2023	11 years
B2	350	6.013%	By instalments 2003 to 2028	21 years
C1	200	6.469%	By instalments 2003 to 2030	26 years
	1,900			

The expected 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 \$419m, 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 monoline insurance costs.

The securitisation is governed by various conditions, including covenants relating to the maintenance and disposal of the securitised properties.

Return of funds to shareholders and share consolidation

The Board has approved the payment of a special dividend of 68p per share to shareholders who were registered on 1 December 2003. The special dividend will be paid as an interim dividend in respect of the financial year ending 30 September 2004 and is expected to be 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, which is a proportionate reduction in the number of shares in issue, will allow comparability of the Company's share price and dividend per share before and after the payment of the special dividend. The share consolidation resulted in the issue of 12 new ordinary shares of 7 1/12p each for every 17 existing ordinary shares of 5p each.

Notes to the financial statements continued

33. US GAAP reconciliations

The financial statements set out on pages 24 to 47 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.

Page 49 provides a reconciliation between profit for the financial year under UK GAAP and net income under US GAAP and between shareholders' funds under UK GAAP and shareholders' equity under US GAAP.

Basis of preparation

As described in note 1, the Group's financial statements exclude the results, cash flows and net assets of Six Continents PLC and its hotels and soft drinks subsidiaries for all periods presented. This basis of preparation accords with the 'carve out' basis of accounting that would be required under US GAAP. Similarly, the merger accounting principles used with respect to the transfer of entities to the Group from other Six Continents group companies accords with the accounting for a reorganisation of entities under common control that would be required under US GAAP.

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 on an annual basis or on an interim basis when a triggering event occurs. Prior to 1 October 2002 under US GAAP, goodwill would have been capitalised and amortised over its estimated useful life, not exceeding 40 years. The Group is not required to recognise any intangible assets, other than goodwill, under either UK GAAP or US GAAP.

SFAS 142 requires a two-step process in evaluating goodwill for impairment. 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 performed initial and subsequent evaluations of its goodwill using 1 October 2002 and 30 September 2003 as the respective valuation dates. An impairment charge was not required at either of the valuation dates.

Tangible fixed assets

Prior to 1 October 1999, the Group's properties were valued from time to time by professionally qualified external valuers. Book values were adjusted to accord with the valuations. Under US GAAP, revaluation would not have been permitted.

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 policies.

Provisions

Included in provisions for liabilities and charges are amounts which relate to the restructuring of certain of the Group's operations. Under US GAAP, certain of these amounts would be charged to net income as incurred. The restructuring was substantially completed during the year.

Staff costs

Under UK GAAP, the Group makes a charge for the cost of certain share incentive plans based on the fair value of the shares on the date of the award. The cost is recognised over the period of the schemes. Under US GAAP, these awards would be accounted for as variable plans and the charge would be based on the intrinsic value of the shares using the share price at the balance sheet date. A charge would also be made under US GAAP in respect of options granted under the Sharesave Scheme based on the intrinsic value at the date of grant, and the charge would be recognised 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. In addition, under US GAAP, a charge would also be made in respect of option grants under the Group's Executive Share Option Plan. Variable plan accounting would apply and the charge would be recognised over the period of the plans.

The adjustment resulting from the above differences is not large enough to register in the US GAAP reconciliations.

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. On 1 April 2003, a subsidiary of the Group became the sponsoring employer of the two pension plans which were previously operated by Six Continents PLC. Under UK GAAP the Mitchells & Butlers element of these pension plans has been reflected as if the plans had always been part of the Group. Under US GAAP, the plans would only be recognised from 1 April 2003 and for prior periods would have been accounted for as multiple-employer plans. From 1 April 2003, 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 1 April 2003, 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. Accordingly, on 1 April 2003, an accumulated benefit obligation of £260m and an intangible asset of £16m were recognised. During the period to 30 September 2003 the accumulated benefit obligation decreased by £48m.

Deferred taxation

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. 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.

Exceptional items

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.

Proposed dividends

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.

33. US GAAP reconciliations continued

Net income under US GAAP

	2003	2002	2003	2002
	£m	restated* £m	\$m	restated* \$m
Profit for the financial year in accordance with UK GAAP	125	164	200	243
Amortisation of intangible fixed assets	1	(4)	2	(6)
Disposal of tangible fixed assets	7	6	11	9
Provisions	(13)	–	(21)	–
Pension costs	(14)	–	(22)	–
Deferred taxation				
– on above adjustments	4	–	6	–
– methodology	(9)	3	(14)	4
Total adjustments	(24)	5	(38)	7
Net income in accordance with US GAAP	101	169	162	250
	2003	2002	2003	2002
	p	p	¢	¢
Net income per American Depositary Share				
Basic**	13.7	23.0	22.0	34.1
Diluted***	13.7	23.0	22.0	34.1
Translation rate			£1=\$1.60	£1=\$1.48

Shareholders' equity under US GAAP

	2003	2002	2003	2002
	£m	restated* £m	\$m	restated* \$m
Shareholders' funds in accordance with UK GAAP	2,064	2,475	3,426	3,861
Intangible fixed assets:				
Goodwill: Cost	131	150	217	234
Accumulated amortisation	4	(16)	7	(25)
	135	134	224	209
Pension intangible fixed asset	14	–	23	–
	149	134	247	209
Tangible fixed assets:				
Cost	(741)	(746)	(1,229)	(1,164)
Accumulated depreciation	(122)	(124)	(203)	(193)
	(863)	(870)	(1,432)	(1,357)
Current assets:				
Pension prepayment	(98)	(61)	(163)	(95)
Creditors: amounts falling due within one year:				
Proposed dividends	29	–	48	–
Provisions for liabilities and charges:				
Provisions	–	13	–	20
Accrued pension cost	(212)	–	(352)	–
Deferred taxation				
– on above adjustments	89	18	148	28
– methodology	–	9	–	14
Total adjustments	(906)	(757)	(1,504)	(1,181)
Shareholders' equity in accordance with US GAAP	1,158	1,718	1,922	2,680
Translation rate			£1=\$1.66	£1=\$1.56

* Restated following a review of the historical tax base of the Group's properties used in prior years. This has resulted in additional goodwill of £100m arising on an acquisition in 2000. The goodwill impact in 2002 was to increase the amortisation of intangible fixed assets by £3m (\$4m) and shareholders' equity by £91m (\$142m). Deferred tax methodology restatements in 2002 decreased net income by £6m (\$9m) and shareholders' equity by £33m (\$51m). A review of the historic cost of the Group's properties has also resulted in a decrease in the 2002 tangible fixed asset adjustment by £91m (\$142m).

** Calculated by dividing net income in accordance with US GAAP by 735m (2002 734m) shares, being the weighted average number of ordinary shares in issue during the year. Each American Depositary Share represents one ordinary share.

*** Calculated by adjusting basic net income 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 736m (2002 734m).

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 below, 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 22 to 49 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 year ended 30 September 2003 which comprise the Group profit and loss account, Group balance sheet, Company balance sheet, Group cash flow statement, Statement of total recognised Group gains and losses, Reconciliation of movement in Group shareholders' funds 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 above.

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 either 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, Chairman's Statement, Chief Executive's Review, Executive Directors' reviews and the Three 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 30 September 2003 and of the profit of the Group for the year then ended, and the financial statements and the part of the Directors' Remuneration Report that is audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor, London
3 December 2003

Three year review

Profit and loss account information

	Pro forma 2003 £m	Pro forma 2002 £m	2003 £m	2002 £m	2001 £m
Turnover					
Pubs & Bars	877	866	877	866	832
Restaurants	619	609	619	609	564
Inns & Other	–	–	–	–	161
Retail	1,496	1,475	1,496	1,475	1,557
SCPD	17	6	17	6	5
	1,513	1,481	1,513	1,481	1,562
Operating profit					
Pubs & Bars	177	190	177	190	187
Restaurants	96	98	96	98	87
Inns & Other	–	–	–	–	31
Retail	273	288	273	288	305
SCPD	2	1	2	1	1
Operating exceptional items: major	–	–	(5)	–	–
Total operating profit	275	289	270	289	306
Non-operating exceptional items: major	–	–	(42)	–	–
minor	–	(2)	–	(2)	(36)
Profit before interest	275	287	228	287	270
Finance charge	(76)	(86)	–	–	–
Net interest payable	–	–	(55)	(43)	(58)
Exceptional interest charge	–	–	(8)	–	–
Profit before taxation	199	201	165	244	212
Taxation	(64)	(65)	(40)	(80)	(82)
Profit for the financial year	135	136	125	164	130
Dividends	–	–	(29)	–	–
Retained profit	135	136	96	164	130
Earnings per share					
Basic	–	–	17.0p	22.3p	17.7p
Adjusted	–	–	20.3p	22.3p	23.6p
Diluted	–	–	17.0p	22.3p	17.7p
Pro forma	18.4p	18.5p	–	–	–
Final dividend per share	–	–	5.65p	–	–

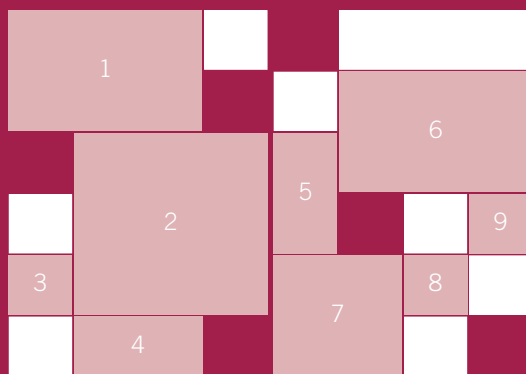
Three year review continued

Balance sheet information

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

Cash flow information

	Pro forma 2003 £m	Pro forma 2002 £m	2003 £m	2002 £m	2001 £m
Operating profit	275	289	275	289	306
Depreciation and amortisation	99	87	99	87	85
Other non-cash items	–	(1)	–	(1)	(4)
EBITDA	374	375	374	375	387
Working capital movement	(3)	(4)	(3)	(4)	(43)
Additional pension contributions	(27)	(10)	(27)	–	–
Net cash inflow from operating activities	344	361	344	371	344
Purchase of tangible fixed assets	(151)	(256)	(151)	(256)	(314)
Sale of tangible fixed assets	48	30	48	30	26
Net capital expenditure	(103)	(226)	(103)	(226)	(288)
Operating cash flow after capital expenditure	241	135	241	145	56
Net interest paid			(49)	(43)	(58)
Tax paid			(44)	(82)	(34)
Normal cash flow			148	20	(36)
Issue of ordinary share capital			4	–	–
Major operating exceptional expenditure			(2)	–	–
Separation costs paid			(36)	–	–
Facility fees paid			(15)	–	–
Prepaid issue costs in respect of the securitisation			(1)	–	–
Disposal of businesses			–	–	598
Net cash flow			98	20	562



- 1 Browns, Butlers Wharf, London
- 2 Toby Carvery, Quinton, Birmingham
- 3 Cheshire Cat, Vintage Inn, Christleton, Cheshire
- 4 The Greville Arms, Sizzling Pub Co, Solihull, West Midlands
- 5 The Black Friar, Nicholson's, Blackfriars, London
- 6 The Sun Inn, Barnes, London
- 7 White Hart, Vintage Inn, Westerham, Kent
- 8 The Fieldhouse, Ember Inn, Solihull, West Midlands
- 9 All Bar One, Brindleyplace, Birmingham

Forward-looking statements

Both the Annual Review and Summary Financial Statement 2003 and the Annual Report and Financial Statements 2003 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 for the financial year ended 30 September 2002, or any subsequent year, filed with the US Securities and Exchange Commission.



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