

Report 05



Financial highlights

Turnover of £1,662m, up 4.6%*
£1,560m (2004)

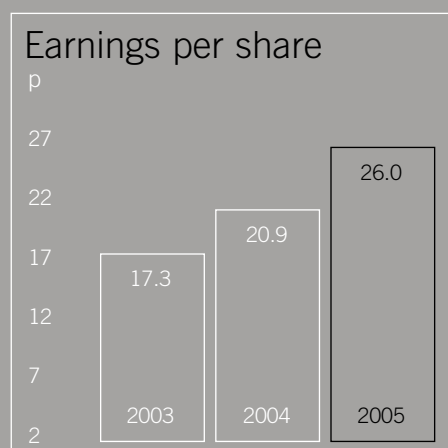
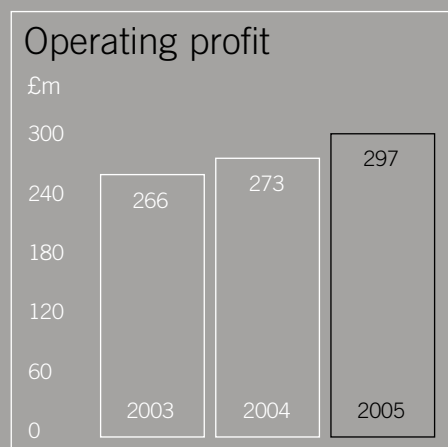
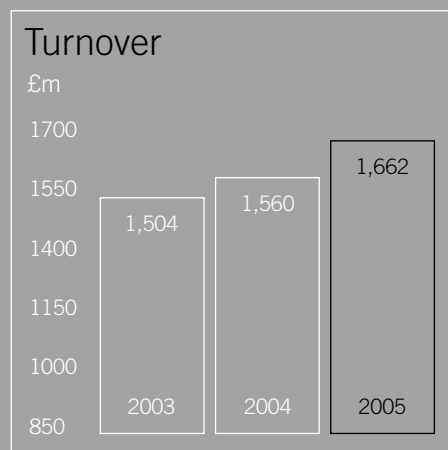
Operating profit of £297m, up 6.6%*
£273m (2004)

Operating cash flow after net capex of £294m
£284m (2004)

Profit before tax of £195m, up 10.4%*
£173m (2004)

Earnings per share of 26.0p, up 21.5%*
20.9p (2004)

Final dividend 7.55p, up 13.5% on 2004 final
6.65p (2004)



Notes:

(1) All results are before exceptional items

(2) Comparatives restated for FRS 17

* Growth rate based on a comparable 52 week period

About us

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants in the UK. We have around 2,000 businesses offering food, drink, entertainment and accommodation in prime locations across the country.



The Prince Regent, London

Contents

2	Operating and financial review	31	Note of historical cost group profits and losses
11	Directors' report	31	Reconciliation of movement in group shareholders' funds
13	Corporate governance	32	Balance sheets
16	Audit committee report	33	Group cash flow statement
18	Remuneration report	34	Notes to the financial statements
28	Directors' responsibilities in relation to the financial statements	61	Four year review
29	Report of the independent auditors	63	Forward-looking statements
30	Group profit and loss account	64	Glossary
31	Statement of total recognised group gains and losses		

Operating and financial review



White Hart, Vintage Inns, Brasted – Favourite pub of Biggin Hill pilots during the Battle of Britain

Market and business strategy

Mitchells & Butlers is the leading operator of managed pubs and pub restaurants, with an estate of approximately 2,000 sites at 1 October 2005. The assets are predominantly freehold properties with a total net book value of £3.5bn. The managed estate, comprising 1,858 pubs, is biased towards residential locations (70% of the estate) with the remainder on the High Street. With approximately 3% of the pubs in the UK, the Group achieves around 10% of pub industry sales as it has average weekly sales per pub of £16,400, this is over three times the industry average.

The UK pub industry consists of some 60,000 pubs in total, which can be broadly categorised into three business models: managed pubs; leased/tenanted pubs; and individual pubs. Managed pubs are generally owned by a pub company or brewer, operated by a salaried manager and with staff employed by the pub company which generally also prescribes the product range and details of the service style. Managed pubs tend to be physically larger than leased/tenanted pubs or independently owned pubs and have higher average weekly sales.

The value of annual sales in the drinking-out sector in the UK is estimated at £28bn, inclusive of VAT (Office for National Statistics), of which around half is derived from pubs. Over the past decade the market has seen a continued decline in draught beer sales but this has been offset by growth in wine and soft drinks sales, leaving the drinking-out market broadly flat in real terms. Conversely, the eating-out market in the UK has grown by a compound annual growth rate of 7% over the past decade to £38bn, inclusive of VAT (Office for National Statistics), of which the pub market accounts for around £6bn. This growth is being driven by fundamental lifestyle and demographic changes, including the increasing number of women in employment; the rise in single households; and the growing spending power of the over 50s age group.

Mitchells & Butlers' business strategy is to:

- Provide the best value experience available in the informal eating and drinking-out markets through a combination of a wide range of food and drink, high-quality amenity, excellent service and good prices;
- Build on the active repositioning of the business over the past decade towards the faster growing eating-out market by pursuing strong growth in food sales and drinks market share gains;
- Maximise returns from its £3.5bn asset base by identifying the most appropriate brand or operating format that will generate the highest sales and profits from each trading property;
- Continually evolve and develop its brands and formats in line with customer demand growth trends, particularly towards food, which now represents 31% of retail sales, compared with 11% a decade ago; and
- Combine the productivity benefits of unit scale with the purchasing and support cost benefits of corporate scale.

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

Mitchells & Butlers' financing approach is designed to support this growth strategy, combining an efficient balance sheet with appropriate flexibility to continue to develop the business in the best interest of shareholders.

Trading

The 2005 financial year comprises 53 weeks and therefore, where necessary, the trading results have been restated on a 52 week basis for a more appropriate comparison. Unless otherwise stated, all sales, profit and like-for-like trading statistics relate to a 52 week basis; all cash flow results are for 53 weeks. The figures for 2004 have been restated in line with pensions accounting under FRS 17 which was adopted by the Group in 2005.

	2005 53 weeks	2005 52 weeks	2004* 52 weeks	52 week basis
Total sales	£1,662m	£1,631m	£1,560m	+4.6%
Operating profit**	£297m	£291m	£273m	+6.6%

*Restated for FRS 17.

**Before exceptional items.

Overall performance

Total sales for the year of £1,662m were up 4.6% on last year on a comparable 52 week basis and operating profit was up 6.6%. Like-for-like sales were strong in both the Residential and High Street businesses, reflecting continued market share gains.

	Same outlet*	Uninvested*
Residential like-for-like sales	5.7%	3.6%
High Street like-for-like sales	3.3%	2.3%
Total like-for-like sales	4.8%	3.0%

*52 week basis.

With the success of ongoing sales and marketing activities, food and drink volumes were up 9% and 4% respectively, on a same outlet 52 week basis, with average retail prices unchanged. Despite the much faster growth of the lower-margin food and wine categories, the overall percentage gross margin was broadly maintained, with additional purchasing gains being achieved.

With strong volume performance and further cost efficiencies, the net retail operating margin was 0.4 percentage points higher than last year, having absorbed £17m of regulatory and energy cost increases.

The organic sales growth in the estate was supported by an investment programme of £167m in the year. £106m was invested to maintain the high levels of amenity in the pubs and the continuing evolution of our brands and formats. The balance of £61m was spent on expansionary capital projects. During the year, six new pubs were opened and 80 existing pubs were converted to one of our brands or formats to uplift their sales and profits. In addition, 13 Innkeeper's Lodges were developed on land adjacent to existing pubs. Overall, we are achieving an average incremental return on investment of over 20% before tax on the expansionary projects of the last two years.

Net capital investment during the year was £110m as disposal proceeds of £57m were achieved from the opportunistic sale of individual pubs or surplus pieces of land, taking advantage of the continued buoyancy in the property market.

As a result of our progress, operating profit before exceptional items was £297m, up 6.6% on a 52 week comparable basis, representing an increased net operating margin from 17.5% to 17.9%.

Profit and loss account

	2005 53 weeks £m	2005 52 weeks £m	2004* 52 weeks £m
Turnover			
Pubs & Bars	957	939	913
Restaurants	697	684	641
Retail	1,654	1,623	1,554
SCPD	8	8	6
	1,662	1,631	1,560
Operating profit			
Pubs & Bars	180	176	173
Restaurants	116	114	99
Retail	296	290	272
SCPD	1	1	1
Operating profit before exceptionals	297	291	273
Operating exceptional items	(4)	(4)	(2)
Total operating profit	293	287	271
Profit on disposal of fixed assets	1	1	2
Profit before interest	294	288	273
Interest on net debt	(105)	(103)	(101)
Exceptional interest charge	–	–	(2)
Net finance income on pensions	3	3	1
Profit before taxation	192	188	171
Taxation	(59)	(58)	(53)
Profit for the financial year	133	130	118
Dividends	(53)	(53)	(550)
Retained profit/(loss)	80	77	(432)
Adjusted earnings per share	26.0p	25.4p	20.9p

*Restated on the full adoption of FRS 17.

The statutory Group profit and loss account is shown on page 30.
The 2005 results on a 52 week basis are unaudited.

Cash flow

	2005 53 weeks £m	2004* 52 weeks £m
Operating profit**	297	273
Depreciation and amortisation	116	108
EBITDA**	413	381
Working capital movement	16	28
Additional pension contributions	(30)	(40)
Other non-cash items	5	14
Net cash inflow from operating activities**	404	383
Purchase of tangible fixed assets	(167)	(150)
Sale of tangible fixed assets	57	51
Net capital expenditure	(110)	(99)
Operating cash flow after net capital expenditure**	294	284
Net interest paid	(102)	(98)
Tax paid	(43)	(34)
Normal dividends paid	(50)	(44)
Special dividends paid	–	(501)
Issue of ordinary share capital	2	8
Purchase of own shares	(101)	(12)
Proceeds on release of own shares	14	1
Issue costs paid in respect of securitised debt	–	(22)
Operating exceptional expenditure	(4)	(5)
Net cash flow	10	(423)

*Restated on the full adoption of FRS 17.

**Before exceptional items.

The statutory Group cash flow statement is shown on page 33.

Operating and financial review continued

Pubs & Bars

	2005 53 weeks	2005 52 weeks	2004* 52 weeks	52 week basis
Total sales	£957m	£939m	£913m	+2.8%
Operating profit**	£180m	£176m	£173m	+1.7%
Same outlet like-for-like sales				+3.4%
Uninvested like-for-like sales				+2.1%

*Restated for FRS 17.

**Before exceptional items.

Sales in the Pubs & Bars division were 2.8% ahead of last year on a comparable 52 week basis. Drinks sales showed good growth despite a further 3.6% volume decline in the on-trade beer market over the last year and ongoing price competition from supermarkets. The emphasis has been on continuing to develop the range of products and price points that we offer, particularly in draught lager and speciality beers.

The branded local pubs in residential areas with strong food offers performed very well, as did the pubs in Central London overall, although their sales suffered since July, as a consequence of the terrorist attacks. By contrast, the unbranded local pubs with a lower food sales mix were more exposed to the beer market declines and our High Street circuit bars continue to face intense competitive conditions.

The number of managed units in Pubs & Bars reduced to 1,267 after 30 pubs were sold and 21 were transferred to operate under franchise agreements. There were on average 1,262 trading outlets during the year. A total of 45 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co., Ember Inns and the Metro Professionals format. In addition, a new Ember Inn was opened, marking the first new site acquisition for this brand.

Following a better performance in the second half, Pubs & Bars profits were up 1.7% in the year. Despite continuing pressure on employment and energy costs, the net margin was 18.7% compared with 18.9% last year.

Restaurants

	2005 53 weeks	2005 52 weeks	2004* 52 weeks	52 week basis
Total sales	£697m	£684m	£641m	+6.7%
Operating profit**	£116m	£114m	£99m	+15.2%
Same outlet like-for-like sales				+6.9%
Uninvested like-for-like sales				+4.4%

*Restated for FRS 17.

**Before exceptional items.

The Restaurants division produced excellent results, driven by the strength of our brands, our value offers and our operating skills. By increasing the variety of dishes and extending the range of tastes being catered for, we have been improving choice and attracting a wider customer base. This, combined with drinks value and range enhancements, has stimulated higher footfall and food volumes with the average pub restaurant now selling over 1,800 main meals per week.

During the year, three new Vintage Inns and two Toby restaurants were opened. In addition, 35 pubs were converted to existing brands as well as our more recent offer developments in the Premium Country Dining market segment and the Pub Carvery format. A number of extensions and lodges were also built on existing sites, to capture additional trading potential.

Overall, there were 591 units in Restaurants at the year end, after eight sites were sold and a further eight transferred to operate under franchise agreements. There were on average 584 trading outlets during the year.

The positive combination in Restaurants of strong volume performance, productivity improvements and good cost control, produced an operating profit of £116m, up 15.2% on the comparable 52 week basis, with a corresponding increase in the net operating margin from 15.4% to 16.7%.

Standard Commercial Property Developments (SCPD)

SCPD aims to maximise the value of the Group's surplus properties which are suitable for development. Turnover of £8m and operating profit of £1m were generated during the year, primarily through the sale of two developments in Burton-on-Trent and Bournemouth.

Other financial information

Accounting policies

The principal accounting policies of the Group remain unchanged from the previous year with the exception of the full adoption of FRS 17 'Retirement Benefits'. In prior years, the Group has complied with the transitional disclosure requirements of this standard. FRS 17 has been adopted in full in light of the introduction of International Financial Reporting Standards from 1 January 2005; the measurement principles in the equivalent international standard are similar to those in FRS 17. The change in accounting policy therefore provides investors with greater clarity of earnings and net assets going forward.

The full adoption of FRS 17 has resulted in a change in the accounting treatment of the Group's defined benefit pension arrangements. In particular, the net liabilities of the pension schemes are included on the balance sheet, current service costs and net financial returns are included in the profit and loss account and actuarial gains and losses are recognised in the statement of total recognised group gains and losses. Previous accounting under SSAP 24 'Accounting for Pensions Costs' required the charging of regular costs and variations from regular costs in the profit and loss account with the difference between the cumulative amounts charged and the payments made to the pension schemes shown as a prepayment or liability on the balance sheet. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly.

The total pension cost of £14m for the 53 weeks ended 1 October 2005 included within operating profit compares to £45m which would have been incurred under SSAP 24. The SSAP 24 cost would have been higher this year reflecting the impact of the full actuarial valuations of the pension schemes at 31 March 2004. If FRS 17 had not been adopted, the net assets of the Group would have been £200m higher at 1 October 2005 under SSAP 24.

Exceptional items

During the year, the Group incurred exceptional operating costs of £4m relating to the one-off costs of obtaining new licences for its pubs and pub restaurants as required by the Licensing Act 2003. A non-operating exceptional profit of £1m also arose on the disposal of fixed assets.

Interest

The net interest charge for the year on the Group's net debt was £105m compared with £101m (before exceptional interest) in 2004. The composition of the charge was interest payable of £116m (2004 £100m) in respect of the Group's securitised debt, less £11m (2004 £9m) of interest income earned on surplus cash. During the early part of the 2004 financial year, the Group also incurred an interest charge of £10m in relation to the floating rate borrowings that were in place before the securitisation. As required by the terms of the securitisation, interest payable on the securitised debt is totally fixed through the use of interest rate and currency swaps.

Following the adoption of FRS 17, the Group has reported net finance income in respect of pensions of £3m (2004 £1m) representing the excess of the expected return on the scheme assets over the interest cost of the scheme liabilities.

Taxation

The tax charge of £62m before exceptional items represents an effective tax rate of 32.0%, which is higher than the UK statutory rate of 30% due to non-allowable items, in particular the depreciation of properties. The equivalent effective tax rate for the previous year was 32.4%. Including the effect of exceptional items, the effective tax rate was 30.6%, which compares with last year's rate of 31.3%.

Earnings per share

Earnings per share based on 53 weeks, adjusted for exceptional items, were 26.0p, up 24.4%. On a comparable 52 week basis the increase was 21.5%. In addition to the growth in operating profit, earnings per share have benefited from the share consolidation accompanying the return of funds to shareholders in 2003 and the share buy-back programme during the current year.

Basic earnings per share for the year were 26.0p compared with 21.1p last year.

Dividends and returns to shareholders

The Board is recommending a final dividend for 2005 of 7.55p, up 13.5% on the final dividend last year. Together with the interim dividend of 3.20p paid on 30 June 2005, this gives a total dividend for the year of 10.75p, up 13.2% on last year. This increase is consistent with the underlying earnings growth of the business and reflects our commitment to a progressive policy for dividend growth. Subject to approval at the AGM, the total cost of the dividend for the year will be £53m and the final dividend will be paid on 6 February 2006 to shareholders registered on 9 December 2005.

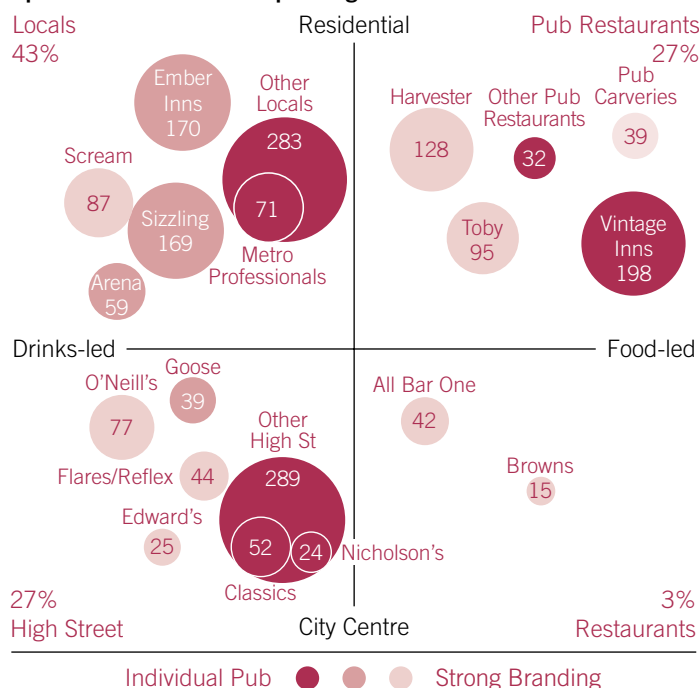
During the year, the Company repurchased 29.8m shares for a total consideration of £101m. Of these shares, 24.2m were cancelled and 5.6m were placed in Treasury or employee share trusts to satisfy the requirements of employee share plans.

During the prior year in December 2003, the Company returned £501m to shareholders by way of a special dividend that was accompanied by a 12 for 17 share consolidation.

Cash flow and net debt

The Group's operations continued to generate strong cash flow with EBITDA of £413m before exceptional items, compared to £381m last year. Operating cash flow after net capital expenditure of £110m was £294m, compared with £284m

Spectrum of brands and operating formats – FY 2005



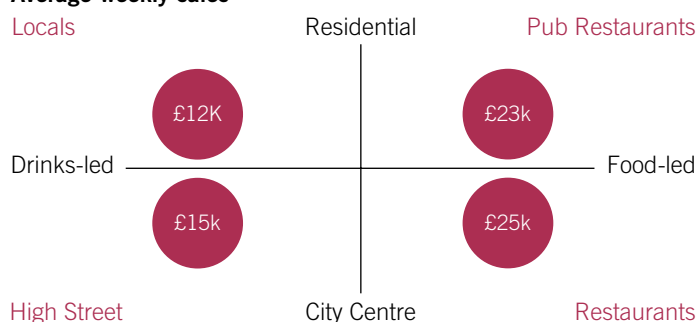
Notes:

1 Excludes Hollywood Bowl (25 outlets) and Alex (42 outlets).

2 The Group operates 3,963 rooms adjacent to its pubs and pub restaurants under the Innkeeper's Lodge and Express by Holiday Inn brands.

3 Percentages represent split of UK managed sites (excluding Bowling and Hotels) at end FY 2005.

Average weekly sales

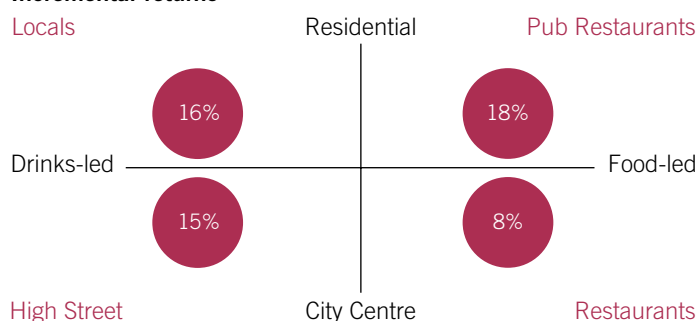


Notes:

1 Managed estate, UK only and excluding Hollywood Bowl.

2 52 week basis.

Incremental returns



Notes:

1 Managed estate, UK only and excluding Hollywood Bowl.

2 Cumulative £1bn expansionary investment over the last 15 years.

3 Incremental ROI is an EBIT return.

Operating and financial review continued

last year. Interest payments of £102m were higher than the prior year due to a full year of the increased level of debt in place since completion of the refinancing and the return of funds to shareholders in December 2003. Net tax payments of £43m were £9m higher due to the receipt in 2004 of a refund from HM Revenue & Customs in respect of prior years. The net cash inflow for the year was £10m, after expenditure of £101m on share repurchases and cash receipts of £14m in connection with the exercise of share options. This compared with a net cash outflow of £423m in 2004, which was after the payment of the special dividend of £501m. Net debt was £1,625m at 1 October 2005.

Shareholders' funds

Shareholders' funds at the year end were £1,417m, compared with £1,423m at the end of 2004 after restatement for FRS 17. The cost of the share buy-back programme was charged to reserves and was broadly offset by the retained profit for the year (£80m) and the proceeds received on the exercise of share options (£14m). The adoption of FRS 17 as at 26 September 2004, which required recognition of the FRS 17 pension deficit on the balance sheet and the removal of the prepayment that was carried under SSAP 24, resulted in a reduction in shareholders' funds of £219m.

Share price and market capitalisation

At 1 October 2005 the share price was 365p compared with 259p at the start of the financial year, an increase of 41%. The Company is a member of the FTSE 250 index with a market capitalisation of approximately £1.8bn at the year end.

Treasury management

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

On 13 November 2003, the Group completed a securitisation of the majority of its pubs, raising a total of £1.9bn through the issue of secured loan notes. The securitisation provides the Group with long-term financing at a cash interest cost of 6% pre-tax, including the interest rate and currency swap agreements put in place to hedge the floating rate tranches. The Treasury department is responsible for ensuring that robust procedures are in place for the Company to comply with the various covenants attached to the securitisation.

The Treasury department is also responsible for identifying and managing foreign exchange exposures. Whilst the Group has limited operations in Germany, the impact of movements in the Euro exchange rate do not have a material effect on the Group's results. Consequently the only foreign exchange hedging in place relates to the US dollar denominated secured loan notes that were issued in connection with the securitisation.

Permitted interest rate hedging methods include the use of fixed rate debt, interest rate swaps, options (such as caps) and forward rate agreements. The only hedging arrangements in place are interest rate and currency swaps taken out at the time of the securitisation to fix the interest cost relating to floating rate loan notes. As required under the terms of the securitisation, these hedging arrangements mean that the interest payable in respect of the securitised debt is totally fixed.

Credit risk on treasury transactions is 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.

At 1 October 2005, the Group's net debt of £1,625m consisted of the securitised debt of £1,821m and a small amount of other loan notes and finance lease obligations (£4m), offset by cash and investments of £200m.

The Group has a committed working capital facility of £60m and a further liquidity facility of £220m available to the securitisation issuer.

Pensions

On an FRS 17 basis, the Group's pensions schemes showed a deficit of £148m at 1 October 2005 compared with £173m at 25 September 2004. The reduction in the deficit reflects the benefit of £30m of additional pension contributions paid in the year and improved investment returns, offset by an increase in liabilities following a reduction in the corporate bond rate used for discounting purposes.

Full actuarial valuations of the Group's pension schemes as at 31 March 2004 were finalised during the year. As a result, regular annual contributions to the schemes increased by £3m during 2005. In addition, the Company has continued to make additional contributions to the schemes which amounted to £30m during the year. A contribution of £20m was paid shortly after the year end on 21 October 2005, representing the total commitment for additional contributions for the 2006 financial year. For 2007, a further contribution of £10m is committed under the present agreement with the Trustees. The next actuarial valuation is planned to take place in line with the normal triennial cycle in 2007.

International Financial Reporting Standards ('IFRS')

With effect from 2 October 2005, the Group is required to prepare its financial statements in accordance with IFRS. The Group's first Annual Report under IFRS will be for the 52 weeks to 30 September 2006, with the first published IFRS results being the Interim Report and Accounts for the 28 weeks to 15 April 2006. The Group is required to publish one year of comparative information, which results in a date of transition to IFRS of 26 September 2004.

It is expected that the impact of restating the 2005 results on an IFRS basis will be broadly earnings neutral but will reduce net assets by up to £250m, predominantly due to higher deferred tax provisions. None of the changes will impact on the cash flows or debts covenants of the Group, although the new regime could in the future lead to some increased volatility in reported numbers, particularly net assets. Further details will be provided in a separate press release in December 2005 which will be made available on the Company's website, www.mbplc.com. Shareholders wishing to receive a copy of the press release can do so by writing to the Company Secretary at 27 Fleet Street, Birmingham B3 1JP.

Corporate social responsibility

Mitchells & Butlers operates in a highly regulated industry and recognises that, inherent in the grant of its licences, is the primary obligation to ensure the responsible operation of its premises at all times for customers, staff and the wider community. It is for this

reason, which goes to the core of the business, that the Company strives to ensure that corporate social responsibility underpins its business operation at every level.

The Board takes regular account of social, environmental and ethical matters concerning the business of the Company through the Chief Executive's regular reports to the Board, presentations to the Board at its strategy discussion meetings and through adoption of its Code of Ethics. The Company Secretary is responsible for ensuring that Directors are made aware of and receive training in respect of such matters. It is intended to institute formal social, environmental and ethical reportage on a half-yearly basis.

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

The Board receives regular information papers, providing updates on significant legislative change or development in corporate governance best practice. Most recently, the Corporate Social Responsibility Review 2004 was presented to the Board in May 2005 for information and approval.

The Board is responsible for the Company's system of internal control and risk management and for reviewing its effectiveness, including consideration of performance management systems and remuneration incentives. The Corporate Governance Report on page 13 gives details of how this responsibility is discharged.

Alcohol and social responsibility

Since 2000, Mitchells & Butlers has had in place a comprehensive policy for the responsible retailing of alcohol. Our Alcohol and Social Responsibility Policy includes clear guidelines on the responsible operation of our outlets; the sale and promotion of alcohol; and our under 18s policy. The policy is supplemented and supported by our staff training and development programmes. The introduction of the policy led the industry and played a key role in industry-wide codes of conduct being introduced. We relaunched the Alcohol and Social Responsibility policy in October 2004 to include tighter guidelines on pricing and promotions across our businesses.

Challenge 21 policy

The Challenge 21 policy is an initiative launched by Mitchells & Butlers to support and educate our staff in identifying underage customers. It is not an over 21s only entrance policy, but instead, if a customer appears to be under 21, we require our staff to ask for ID.

The Challenge 21 policy has proved a great success not only in helping our staff to identify potential underage customers in a busy pub environment but also in educating customers as to the need to carry a form of ID. We have received welcome support from both police and licensing officers on the initiative and have also made available Challenge 21 posters to members of Pubwatch schemes. In addition, a number of police authorities

have also launched similar campaigns resulting in many non-Mitchells & Butlers outlets using the initiative as a way of tackling the underage issue.

Responsible promotions policy

Mitchells & Butlers operates a responsible pricing and promotions policy, the guiding principles of which are:

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

Increasing range of alternatives to alcohol

Over the last 12 months we have increased our range of non-alcoholic drinks and we continue to provide tap water at no cost to all our guests.

Responsible Drinks Retailing Award

In recognition of our achievements in responsible retailing, Mitchells & Butlers was awarded the title of Most Responsible On-Trade Retailer of Alcohol by a leading trade journal, the *Morning Advertiser*, in November 2004.

Licensing Act

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

Mitchells & Butlers successfully applied to local authorities to convert existing licences by the due date in August 2005, and at the same time applied to extend our hours of operation. Within such applications there were no requests for 24 hour opening. We have sought to balance the opportunity to offer our customers more flexible opening times with respect for our local communities. Typically this has meant seeking an additional hour at the beginning of the day and an additional hour at the end of the day. In some instances we applied for a further trading hour for weekend evenings.

Where legitimate concerns have been expressed by the authorities or local residents we have tried to accommodate them. In general the additional hours that we have been granted are very similar to those for which we applied. In this context, it is important to note that the Company will not necessarily choose to open all pubs for all hours permitted. This will very much be driven by customer demand.

As part of our preparation for the implementation of the Act, we invested considerable resource in staff training. We are committed to ensuring that more of our duty managers and supervisors become personal licence holders, and a key step in this regard was a major training programme to deliver the new British Institute of Innkeeping National Certificate for Personal Licence Holders qualification. Furthermore, to ensure that all of our operational staff were trained in the changes, issues and implications of the new Licensing Act, in addition to ensuring that key operational management understood the impact of the

Operating and financial review continued

reforms, a series of workshops was organised. A prominent poster has been issued for display in the back of house area of every pub detailing staff responsibilities with regard to serving alcohol under the new Act, including the new prime licensing objectives, the need to serve during stipulated licence hours only, and the fact that it is contrary to licensing law to serve minors or anybody who has had too much to drink. We are pleased to have received positive feedback from several police forces for the leading edge steps that we have taken to ensure proper implementation of the Licensing Act.

Partnerships with local police and communities

Mitchells & Butlers is a corporate member of the National Pubwatch Scheme which we view as essential to building our relationships with local authorities and the communities in which we trade. We also encourage our licensed house managers to become active members of their local Pubwatch Scheme. Some examples of partnerships with local communities include working with West Yorkshire Police to raise the public's awareness of drink spiking and to educate the public as to how to prevent incidents from arising. We have also been involved in Shrewsbury's NightSafe Scheme where Pubwatch licensees, West Midlands Police and Shrewsbury Council act to ensure that customers have an enjoyable and safe night out.

Smoking

In 2004 we commenced a programme of progressively reducing the floor space in which smoking is allowed in all of our pubs. By the end of 2005 a policy of no smoking at the bar will be in effect across the estate.

In October 2005 the Government presented a Bill to Parliament that proposes a ban on smoking in pubs and bars that prepare and serve food in England and Wales. However, the definition of food under these provisions has not yet been determined. Pubs and bars that do not serve food and private clubs will be free to decide whether or not to permit smoking. The new arrangements are due to come into effect in the summer of 2007, and be subject to review after three years.

We are currently continuing with trials of non-smoking in several pubs in order to learn more about consumer reaction and the practical issues associated with withdrawing smoking facilities. This will assist us in deciding in which pubs we will continue to allow smoking if the new legislation comes into effect in its current form.

A full ban on smoking in pubs comes into effect in Scotland in March 2006.

We are committed to reducing progressively the amount of space allocated to smokers, thereby reducing the exposure of staff to Environmental Tobacco Smoke ('ETS') over time. Mitchells & Butlers has introduced an ETS policy, detailing the procedures, responsibilities and implementation required to meet the Company's aim to minimise the effect of ETS on all staff.

Healthy eating

We aim to provide a broad choice of menu items in our establishments so that guests seeking healthier options are well catered for.

We are working closely with the Food Standards Agency ('FSA') to improve the nutritional content of our menus. This has led to offering grilled chicken fillets instead of breaded chicken fillets

in Harvester, reducing fat content significantly. Other initiatives with regard to reducing salt content, and in pursuit of FSA targets, are in hand. We have worked with the FSA to publish our salt reduction programme on their website which provides information from a range of food industry organisations across all sectors in the UK.

Environment

We take our environmental responsibilities seriously, believing that responsible environmental activity is in the interests of both our business and the communities in which we operate. As a national retailing organisation with pubs and pub restaurants throughout the country, our business has an effect on many local communities. Our overall policy is to seek continuous improvement in environmental matters, and detailed below are examples of our commitment to minimise our impact on the environment.

We have established an initiative with our waste collection contractor for collecting and recycling glass and cardboard in our businesses. Following a successful trial in 100 businesses in the Midlands to test the infrastructure and monitor volume, the initiative has been rolled out in further businesses across the UK. Depending on the outcome of this extension of the trial, we would intend to consider applying this scheme to all our businesses where practicable.

We are continuing to make progress in energy saving. A programme to install electricity meters in businesses which capture electricity consumption data every half hour is near completion. The metering programme provides information for retail management to help reduce electricity consumption. By October 2005, there were approximately 1,800 meters in place, each generating a weekly electricity consumption report.

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

Health and safety

The Company 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, the Company:

- Aims to protect the health of employees with suitable, specific work-based strategies;
- Seeks to minimise the risk of injury from Company activity;
- Ensures 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
- Encourages the involvement of employees and aims for continual improvement in health and safety matters through a formal structure with a reporting and review process.

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

Health and safety, food safety and fire safety audits take place a minimum of twice a year, measuring performance against Company policy.

The Company uses a major, independent safety and assurance company to audit and report upon these vital safety practices entirely in all our businesses. These inspection programmes form an essential element of our due diligence programme and include:

- An independently verified means of monitoring safety standards;
- Consistent audit systems across all 2,000 businesses; and
- An independent assessment of standards combined with technical support on performance improvement.

In addition to the Company's internal safety experts, the services of leading consultants in the fields of food safety and fire safety are also retained. As a result of the audits and analysis of incidents and claims, proposals are considered for future improvements in the management of health and safety, food safety and fire safety.

Employees

Mitchells & Butlers is committed to providing equality of opportunity to all employees without discrimination and is supportive of the employment and advancement of disabled and disadvantaged persons.

Considerable emphasis is placed on employee communication, particularly on matters relating to the Company's business and its performance. Communication channels include regular team meetings, communication forums, informal briefings, in-house publications and the Company intranet. 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 conducts a Business Forum at which Executive Directors and representatives of the senior management meet with employees at all levels to discuss business issues.

We are proud of the fact that our employees are highly engaged in the pursuit of our business success; the overall aggregate score from our annual Corporate Employee Satisfaction survey improved for the second consecutive year. 92% of employees surveyed would recommend Mitchells & Butlers as a good place to work.

The Company is committed to the health and well-being of its employees, and recognises that working in a pub environment can at times be stressful. We have in place a stress management policy underpinned by a confidential and impartial counselling and advice service (both by telephone and in person) provided by an external independent company.

Community

Mitchells & Butlers recognises that each of our businesses has an important role to play in its local community, and we also pursue national initiatives to support this local role.

Mitchells & Butlers introduced the 'Heart of the Community' Awards in 2004 to celebrate and recognise the positive community impact achieved by our pub managers. These awards recognise the fundraising and community activities which help forge good relations with the communities in which we participate.

We encourage the managers and staff of all our pubs to support local causes and to bring local communities together. We operate

an Employee Community Award Scheme, which enables employees who actively support a charity through fundraising or voluntary work to apply for a Company donation. In addition to local initiatives, we use our countrywide reach to work with selected charities seeking to make a real difference at a national level.

The Company supports community initiatives and charitable causes and in 2005 donated £143,170 (2004 £103,000). In addition to these cash contributions, employees are encouraged to give their time and skills to a variety of causes and the Company makes donations in kind, such as making its facilities available for use or by giving free meals in Company premises. It is estimated that those contributions raised the total value of the Company's donations to approximately £780,865 (2004 £708,500).

In April 2005, Mitchells & Butlers announced that Barnardo's would be its new charity partner. Barnardo's works with vulnerable children and young people, helping them transform their lives and fulfil their potential. As the UK's leading children's charity, supporting 100,000 children and their families, Barnardo's has an excellent network of local projects enabling Mitchells & Butlers to increase its commitment directly to the communities in which it operates.

In addition to an initial Company donation of £50,000, Mitchells & Butlers supports Barnardo's by encouraging employee-based fundraising through events. Over £7,000 had been raised by corporate staff for Barnardo's in the six months to the end of the financial year. We also operate a payroll giving scheme.

Mitchells & Butlers is actively involved in Fair Cities Birmingham, a government initiative led by a board of local employers with the aim to increase the employment of people living in Birmingham's diverse and disadvantaged communities. In partnership with the Birmingham College of Food, Mitchells & Butlers has put in place a four-week training programme comprising of bar catering, service and life skills. On successful completion of the programme, the candidates will have earned industry-recognised qualifications and are guaranteed an interview for a job in one of the Company's local businesses.

We are proud to be one of the longest serving patrons of the City of Birmingham Symphony Orchestra ('CBSO'), now in our 25th year of sponsorship. We believe that the CBSO considerably enhances the cultural vibrancy and standing of the city within which our head office is based. In 2004, we extended our successful partnership with the CBSO by continuing to sponsor the 'CBSO on the Road' programme. This is a series of specifically devised community concerts which enables the CBSO to offer concerts to charities, community groups, schools, arts organisations and music clubs across the Midlands region, bringing music to local communities and into venues which do not have the facilities to accommodate a full orchestra. To coincide with our silver anniversary sponsorship year, a total of 25 'On the Road' concerts will be held during 2005/06.

Mitchells & Butlers is now in its third year as a Major Corporate Patron of the Birmingham Repertory Theatre.

Corporate governance

Our Executive Committee has adopted a Code of Ethics to promote the honest and ethical conduct of our Senior Executive and Financial Officers. The code includes:

- The ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

Operating and financial review continued

- A requirement that any hospitality from suppliers must be approved, with a presumption against its acceptance;
- Requiring full, fair, accurate, timely and understandable disclosure in periodic reports required to be filed by Mitchells & Butlers plc; and
- Promoting compliance with all applicable rules and regulations that apply to the Company and its officers.

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

Our businesses and employees are part of a wider community and are expected to act in a way that respects the social, economic and environmental well-being of the wider world. Our Business Conduct guidelines describe the standards of behaviour expected from those working for the Company. Our corporate reputation depends on all staff acting in good conscience and behaving with integrity in our dealings with employees, shareholders, customers, suppliers and all other stakeholders.

The Board is responsible for and reviews the Group's system of internal control and risk management. This is detailed in the Corporate Governance report on page 13.

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

Mitchells & Butlers also abides by the Code of Ethics issued by The Chartered Institute of Purchasing & Supply.

Our guiding principles on corporate procurement are to:

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

The Company's social, environmental and ethical disclosures are reviewed for accuracy through a combination of detailed verification by members of management responsible for the individual areas of corporate social responsibility and high level review by the members of the Board and Executive Committee.

Further details of Mitchells & Butlers' corporate social responsibility practices can be found in the Company's Corporate Social Responsibility Review 2004 on www.mbplc.com/csrrreview.

Directors' report



Browns, Cambridge – A renowned brasserie close to the university colleges

The Directors present their report for the **53** week period ended 1 October 2005.

Principal activities

The Group is the leading operator of managed pubs and pub restaurants, with an estate of 1,973 sites as at 1 October 2005, principally located in the UK, but with 42 outlets in Germany.

Business review and future developments

The Directors' Report should be read in conjunction with the Operating and Financial Review (the 'OFR') on pages 2 to 10 and the Chairman's Statement, the Chief Executive's Review, the Finance Director's Report and the business reviews in the Annual Review and Summary Financial Statement, which together include information about the Group's business, the financial performance during the year and likely developments.

Dividends

The Board recommends a final dividend for the year ended 1 October 2005 of 7.55p per share to be paid on 6 February 2006 to shareholders on the register at close of business on 9 December 2005. This makes a total dividend for the year of 10.75p per share (2004 9.5p per share).

Directors

Details of the Directors who served on the Board during the year are shown on page 14.

Employees

The Group employed an average of 37,411 people in 2005 (2004 37,207). Details of the Group's employment policies are shown on page 9 of the OFR.

Health and safety

It is important to the Group to provide and maintain a safe environment for all employees, customers and other visitors to its premises. It complies with relevant health and safety legislation. Details are included in the OFR on pages 8 and 9.

Environmental and social responsibility

Mitchells & Butlers recognises that it is part of a wider community and recognises that it has a responsibility to act in a way that respects the social, economic and environmental well-being of that community. A summary of the Company's approach to these issues is set out on pages 7 to 10 of the OFR.

Share capital

During the year, in view of the strong trading performance and resulting cash generation of the business, the Company completed a share buy-back programme, repurchasing approximately £100m of the Company's shares. This buy-back was intended to maintain an efficient balance sheet through the effective deployment of cash in the best interests of shareholders. The effect of the buy-back on the share capital of the Company was:

	Ordinary shares of 7½p
In issue at 26.09.04	523,792,544
Bought and cancelled	24,236,000
Issued in year	881,496
In issue at 01.10.05	500,438,040

The percentage of the called up share capital represented by the repurchased shares was 4.8%.

Of the issued capital, 2,107,898 shares were held in Treasury and the Company's employee share trusts held 2,139,879 shares at the year end.

American depositary receipts ('ADRs')

In April 2005, the Company gave notice that it wished to terminate its ADR programme and to delist its securities from the New York Stock Exchange ('NYSE'). The ADR programme closed on 19 July 2005. Delisting duly took place on 5 August. ADR holdings outstanding at 19 September were cancelled and holders became entitled to the cash value of the ordinary shares underlying their ADRs.

The above steps were taken because ADRs represented a very small proportion of the Company's equity and ADR trading volume

Directors' report continued

was very low. The number of ADRs in issue had reduced from 44m at the time of demerger from Six Continents to 6m at the time the notice of termination of the programme was given. As the Company does not conduct any business in the US, it was decided that the benefits of maintaining the ADR programme and the NYSE listing did not justify the additional costs of administration.

Notwithstanding the delisting, the Company's registration under the US Securities and Exchange Act of 1934 ('the Exchange Act') remains in effect and it will continue to comply with its obligations, including the filing of Annual Reports on Form 20-F. However, in view of the increasing costs of maintaining a US registration resulting from the implementation of the Sarbanes-Oxley Act of 2002 for non-US companies and in view of the fact that the presence of US shareholders was largely a legacy of the demerger, the Company is examining ways in which it may terminate its Exchange Act registration in due course. Under the relevant provisions of the Exchange Act, the Company may deregister if its shares are beneficially held by fewer than 300 persons resident in the US. Following deregistration, and subject to the fulfilment of certain conditions, the Company will no longer be obliged to comply with the reporting requirements of the Exchange Act. Accordingly, a Special Resolution to amend the Company's Articles of Association to permit the compulsory transfer of certain US beneficial holders' interests will be put to the 2006 AGM.

Substantial shareholders

As at 29 November 2005, the Company had been notified of the following beneficial interests (3% or more) in its shares:

AXA S.A.	13.29%	Legal & General	3.48%
Aviva plc	4.11%	Lone Pine Capital LLC	3.18%
Standard Life	4.00%	Barclays	3.00%

Employee share plans

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

Sharesave plan

In June 2005, options were granted to 1,382 employees over 1,162,897 shares at 258.5p per share, a 20% discount to the market price.

Share incentive plan

During the year, 309,993 shares were allocated by the Share Incentive Plan Trustee as free shares to 7,917 eligible employees subject to the plan rules.

Executive share option plan

In May 2005, options were granted to 64 employees over a total of 3,395,758 shares at 326.1p per share. A further grant over 83,207 shares was made to one employee in June 2005 at 330.5p per share. Options under this plan are only exercisable if a performance condition is met and, for options granted in 2005, the condition is set out on page 21.

Performance restricted share plan

In 2005, 22 employees were granted nominal cost options which will vest subject to the achievement of performance conditions as set out on page 20. No shares vested under this plan during the year.

Short term deferred incentive plan

This plan enables the Company to award Executive Directors all or part of their annual performance bonus in shares, together

with a related award of shares by the Company, which is required to be deferred for a three year period.

80,046 shares were released from this scheme during the year. The Executive Directors' accrued entitlements for the year are set out on page 24.

Headroom limits

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the plans. At 1 October 2005, the position under both the '5% in 10 years' limit for discretionary plans and the '10% in 10 years' limit for all share plans was that shares equivalent to 1.9% of the ordinary share capital had been allocated.

Policy on payment of suppliers

The Company is a holding company and has no trade creditors. The policy of its principal operating subsidiaries is to agree particular 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 subsidiaries receive a valid invoice.

Charitable donations

The Company continues to support community initiatives and charitable causes, full details of which are given on page 9 of the OFR.

Political donations

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2006 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Going concern

The financial statements which appear on pages 30 to 60 have been prepared on a going concern basis as, after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Annual general meeting

The Notice convening the Annual General Meeting to be held at 11am on Thursday, 2 February 2006 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, to authorise the Company to make market purchases of its own shares, to make changes to its share plans and to make certain changes to the Company's Articles of Association including a provision for the compulsory transfer of certain share interests held by US beneficial holders.

Auditors

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

By order of the Board

Bronagh Kennedy

Company Secretary

29 November 2005

Corporate governance



Harkers, York – former Yorkshire Bank in St. Helen's Square

Combined Code compliance

The new Combined Code on Corporate Governance ('the Code') which was published in July 2003 took effect for the Company from 26 September 2004. The Board is committed to compliance with the principles of corporate governance as set out in the Code and considers that the Company has complied throughout the year ended 1 October 2005 with all the provisions of the Code and it remains compliant.

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

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

- Strategic plan achievement, through a comprehensive series of strategic reviews;
- Financial performance within a comprehensive financial planning and accounting framework;
- Capital investment and asset management performance with detailed appraisal, authorisation and post investment reviews; and
- Risk management, through an ongoing process, which accords with the Turnbull guidance and provides assurance through reports from the Director of Group Assurance that the significant risks faced by the Group are being identified, evaluated and appropriately managed, having regard to the balance of risk, cost and opportunity.

In addition, the Audit Committee receives:

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

Through the monitoring processes set out above, the Board has conducted a review of the effectiveness of the system of internal control during the year ended 1 October 2005. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and it must be recognised that it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, the review, in the opinion of the Board, did not indicate that the system was ineffective or unsatisfactory and the Board is not aware of any change to this status up to the approval of this Annual Report.

In line with good corporate governance and to comply with the Group's US obligations under the Sarbanes-Oxley Act, the Group has developed a process to review the effectiveness of internal financial control based on the framework published by the Committee of Sponsoring Organisations of the Treadway Commission ('the COSO framework'). In accordance with the revised timetable for Sarbanes-Oxley Act compliance, this process will be used to evaluate internal financial controls during 2005/06.

A statement outlining the differences between the corporate governance practice followed by the Company and that followed by US companies is shown on the Company's website, www.mbplc.com/investors.

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. The Company additionally maintains Directors' and officers' liability insurance cover.

Corporate governance continued

Board and committee structure

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

The Board

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

There are nine regular Board meetings planned for 2006, with further ad hoc meetings as required to consider matters which are time critical. There were nine meetings during 2004/05. George Fairweather, Drummond Hall and Sara Weller were each unable to attend one meeting, otherwise there was full attendance. Where a Director was unable to attend a meeting, he or she was provided with all the papers and information relating to that meeting and was able to discuss issues arising with the Chairman and Chief Executive.

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

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

The Company Secretary's responsibilities include ensuring good information flows to the Board and its committees and between senior management and the Non-Executive Directors. The Company Secretary is responsible through the Chairman for advising the Board on all corporate governance matters and for assisting the Directors with their professional development, as well as facilitating the induction of Directors. This includes regular corporate governance, legal and business issues updates, as well as the use of site visits and the provision of external courses where required.

The following were Directors of the Company during the year:

		Appointed
Roger Carr	Chairman	10.02.03
Tim Clarke	Chief Executive	10.02.03
Mike Bramley	Managing Director, Pubs & Bars	15.04.03
George Fairweather	Independent Non-Executive Director	15.04.03
Tony Hughes	Managing Director, Restaurants	15.04.03
Karim Naffah	Finance Director	15.04.03
Sara Weller	Independent Non-Executive Director	15.04.03
Sir Tim Lankester	Independent Non-Executive Director	16.05.03
Drummond Hall	Independent Non-Executive Director	30.07.04

Directors' biographical details are set out on pages 28 and 29 of the Annual Review and Summary Financial Statement 2005 and these include their main commitments outside the Company.

Tim Clarke, George Fairweather and Tony Hughes will retire by rotation and offer themselves for reappointment at the 2006 AGM. Details of the Executive Directors' service contracts are set out on page 19. The Chairman and the four independent Non-Executive Directors have letters of appointment. The Chairman, Roger Carr's, term of appointment is expressed to run for three years from the demerger of the Company from Six Continents, which occurred on 15 April 2003. He has agreed to continue as Chairman of the Company beyond April 2006, subject to reappointment by shareholders at the 2008 AGM.

Chairman

Roger Carr is Chairman of the Board and has responsibility for the smooth running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He also ensures that appropriate communication is maintained with shareholders. Roger chairs a FTSE 100 company and is deputy chairman of another. The Board specifically considered his contribution as part of the Board effectiveness review referred to on page 15 and confirmed that his drive, energy and commitment to the business, along with his ability to manage his time effectively, enables him to commit sufficient time to the Company's affairs.

Chief Executive

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

Senior Independent Director

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

Non-Executive Directors

The Company has experienced independent Non-Executive Directors who represent a strong source of advice and judgement. In addition to the Chairman, who was independent on his appointment, there are four Non-Executive Directors, who the Board considers to be wholly independent. Other than their fees which are disclosed on page 23, the independent Non-Executive Directors received no remuneration from the Company. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

All Directors are briefed by the 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 to the Company's businesses. Separate strategy meetings and ad hoc meetings with senior executives are attended.

Committees

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

Audit Committee

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

Further details about the Committee are included in the Audit Committee Report on page 16.

Remuneration Committee

The Remuneration Committee, which is chaired by Sara Weller, comprises the four independent Non-Executive Directors. The Chairman of the Board and the Chief Executive attend by invitation of the Committee's Chairman, but not on matters relating to their own remuneration.

Further details about the Committee are included in the Remuneration Report on page 18.

Nomination Committee

The Committee consists of the Chairman of the Board, who chairs the Committee, the four independent Non-Executive Directors and the Chief Executive. It is responsible for nominating, for the approval of the Board, candidates for appointment to the Board and also for succession planning. It met twice during the year to consider succession planning.

General Purposes Committee

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

Executive Committee

The Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives as shown on pages 28 and 29 of the Annual Review and Summary Financial Statement 2005.

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

The Committee monitors the financial, operational and customer service performance of the Group and allocates resources within the budgets agreed by the Board. It considers employment issues, ensures the Group has an appropriate pool of talent and develops senior management manpower planning and succession plans.

Board evaluation

The Board engaged external consultants, Spencer Stuart, to assist with a Board effectiveness review during the year. The Chairman and the Senior Independent Director provided a brief for the assessment of the Board and its committees, which was effected through individual meetings or discussions with the Company Secretary and each Director. Topics covered included succession planning, changes to Board practices, Directors' development, interaction with Board committees, Board processes

and exposure to senior executives. Feedback was provided to the Board through a written report and presentation, which was discussed by the Board.

This report concluded that the Board was evolving well as a team with greater focus on operational issues and specific strategic matters. The appointment of Drummond Hall was viewed as a positive addition to the Board's mix of skills and experience. The Board will continue to critically review process, effectiveness and strategic development in the year ahead.

The Chairman evaluated the individual performances of the Non-Executive Directors and he met with the Non-Executive Directors without the Executive Directors present during the year. He confirmed that all the Non-Executive Directors continued to make an enthusiastic and important contribution to the successful development of the Company.

Re-election of Directors

The Company ensures that Directors submit themselves for re-election at least every three years. The proposals for reappointments at the 2006 AGM are set out on page 2 of the AGM Notice.

Independent advice

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

Third party indemnities

The Company has provided to all of its Directors limited indemnities in respect of costs of defending claims against them and third party liabilities. These are all qualifying third party indemnity provisions for the purposes of the Companies Act 1985 and are all currently in force.

Shareholder relations

The Company has a regular programme of meetings with its major institutional shareholders which provides an opportunity to discuss, on the back of publicly available information, the progress of the business. The Chairman, the Chief Executive and the Finance Director report to the Board the views of major shareholders about the Company, and the Senior Independent Director and other Non-Executive Directors are available to 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, together with general information about the Company so as to be available to all shareholders.

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

Audit committee report



Argyl Arms, Nicholson's, London – 18th century pub with original snugs intact

The Company's Audit Committee has met the requirements of the UK Combined Code and the US Sarbanes-Oxley Act, as applicable to non-US companies, throughout the year. A copy of the Committee's terms of reference is publicly available within the Investor section of the Company's website.

Role of the Audit Committee

The Committee's principal responsibilities are to:

- Review the Company's public statements on internal control and corporate governance compliance prior to their consideration by the Board;
- Review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company's response to any such occurrence;
- Review management's evaluation of any change in internal controls over financial reporting;
- Review with management and the external auditors any financial statements required under UK or US legislation before submission to the Board;
- Establish, review and maintain the role and effectiveness of the Group Assurance function;
- Assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditors, including review of the external audit, its cost and effectiveness;
- Pre-approve non-audit work to be carried out by the external auditors and the fees to be paid for that work along with the monitoring of the external auditors' independence;
- Oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and

- Adopt and oversee a specific Code of Ethics for the Chief Executive, the Finance Director, the Deputy Finance Director, and all other members of the Executive Committee which is consistent with the Company's overall statement of business ethics.

Audit Committee composition

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

Audit Committee frequency

The Committee meets at least four times a year. During 2004/05 five full meetings of the Committee were held. There was full attendance at all meetings other than one at which Drummond Hall was unable to attend. On that occasion all the papers and information relating to the meeting were provided and he was able to discuss issues arising with the Committee Chairman.

Audit Committee process

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

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

- Interim and full year financial results and the associated UK and US reporting
- The scope and cost of the external audit
- Non-audit work carried out by the Group's auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence
- The scope of the annual internal audit plan, the Internal Audit department's terms of reference and its resourcing
- The external auditors' interim and full year reports
- Periodic internal control and assurance reports from the Internal Audit function
- The effectiveness of the external auditors and consideration of their reappointment
- Periodic reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures
- The effectiveness of the Internal Audit function
- Management representations granted to the external auditors
- Major changes in the Group's internal controls

- The co-ordination of the internal and external audit functions
- The Group's framework for the identification and control of major risks
- Compliance with the code of ethics for the Executive Committee
- Corporate governance developments in the UK and the US
- Monitoring of the Group's International Financial Reporting Standards conversion exercise
- Oversight of the Group's Sarbanes-Oxley compliance work
- Review of the suitability of the Group's accounting policies and practices
- The appropriateness of the Group's early adoption of FRS 17 'Retirement Benefits'
- The disclosure controls and procedures operated by the Group
- The status of litigation involving the Group
- The Committee's own terms of reference and its effectiveness.

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

Evaluations carried out by the Committee in the year have been performed with the assistance of the Director of Group Assurance. The Committee agreed that an external assessment of Group Assurance would be conducted in 2005/06.

External auditors' independence

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

Approved by the Board

George Fairweather

Chairman of the Audit Committee

29 November 2005

Remuneration report



Bells of Ouzeley, Harvester, Old Windsor – Enjoying a drink and a meal by the River Thames

This report has been prepared by the Remuneration Committee ('the Committee') and has been approved by the Board. It complies with Schedule 7A to the Companies Act 1985, which incorporates the Directors' Remuneration Report Regulations 2002, and also with the Combined Code on Corporate Governance and with the UKLA Listing Rules. Throughout this report, references to the year are to the **53** week period ended 1 October 2005. Comparatives, however, are for the **52** week period ended 25 September 2004. This report will be put to shareholders for approval at the 2006 AGM.

The Remuneration Committee

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

- Sara Weller (Chairman)
- Drummond Hall
- George Fairweather
- Sir Tim Lankester

Sara Weller, the Senior Independent Director, is Chairman of the Committee. She has experience of human resources matters and has the appropriate skills to chair the Committee. She does not chair any other committee of the Board. There have been no appointments to or resignations from the Committee during the year.

Roger Carr, the Chairman of the Board, attends the meetings of the Committee at the invitation of its Chairman, as does Tim Clarke, the Chief Executive. Neither attends on matters relating to his own remuneration.

There were eight meetings of the Committee held during the year. George Fairweather, Drummond Hall, and Sir Tim Lankester were each unable to attend one meeting, otherwise there was full attendance. Where a Director was unable to attend a meeting, he was nevertheless provided with all the papers and information relating to that meeting and was able to discuss issues arising with the Chairman of the Committee.

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

During the year, the Committee appointed Watson Wyatt, benefits consultants, to carry out a review of Executive Directors' reward in the Company, the outcome of which is explained later in this report. The Committee also received external advice during the year from Towers Perrin, benefits consultants, and Allen & Overy, the Company's general legal advisers. The Committee took advice from Tim Clarke, the Chief Executive, Bronagh Kennedy, the Human Resources Director and General Counsel, and Sheila Mellish, Head of Reward. None of these participated in discussions concerning their own remuneration. Additionally, during 2005, advice on non-executive remuneration was sought from Deloitte & Touche who also advise the Company on general tax matters.

The terms of reference for advisers, which the Committee sets, are available on the Company's website, as are the terms of reference of the Committee itself. Towers Perrin and Watson Wyatt were independently appointed by the Committee, and do not provide other services to the Company.

The Committee is responsible for determining policy on remuneration for the Executive Directors, other members of the Executive Committee and certain senior executives and for reviewing the Chairman's fees. It determines the actual remuneration of the Executive Directors and reviews proposals in respect of other members of the Executive Committee, taking account of a range of factors, including percentage increases awarded across the Group. For the year under review, the total remuneration earned by those members of the Executive Committee who were employed in the Group at the year end, and who were not main Board Directors, is shown in the table on page 19:

No. of executives	£000
2	0 – 250*
2	251 – 300
3	301 – 350

*Executives in this category were employed for a part year only.

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

Remuneration policy for Executive Directors

The following overall policy has applied throughout the year and will apply for the financial year 2006. This policy continues to apply notwithstanding the proposed amendments to elements of the Executive Directors' remuneration packages as described on page 21. 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 organisation recruits.
- In fixing remuneration, note will be taken of reward levels in the wider community and of the remuneration structure throughout the organisation.
- There will be an appropriate balance between fixed and variable risk reward. The latter will be linked to the performance of the individual and of the Group.
- Basic salary will normally be set at median market level when compared with an appropriate comparator 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. Shares arising from share schemes should not normally be sold until the minimum level of ownership, as described on page 22, has been satisfied.

The Committee is considering the impact of the transition to IFRS on its incentive schemes and will make adjustments to ensure that measurement of achievement against the performance conditions remains fair, reasonable and consistent.

Policy regarding pensions

UK-based Executive Directors and senior employees participate with other members in the Mitchells & Butlers Executive Pension Plan and, if appropriate, the Mitchells & Butlers Executive Top-Up Scheme. Executives in Germany, who do not participate in these plans, are entitled to participate in relevant local plans. The Remuneration Committee is considering the Company's current policy of using the Executive Pension Plan and the Executive Top-Up Scheme to provide pension and related benefits in a tax efficient way in light of the new legislation being introduced in April 2006.

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 a conflict of interest. Fees received may be retained by the Director. Tim Clarke was appointed a non-executive director

of Associated British Foods plc during the year, and received £34,090 during the year for that appointment.

Policy on Non-Executive Directors

Non-Executive Directors are paid a basic fee with additional fees for membership of the Remuneration and Audit Committees and for chairing those committees. 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. It is intended to carry out a review of these fees in April 2006 as they have remained unchanged since demerger. Non-Executive Directors do not participate in the Company's share schemes.

Directors' contracts

It is the Company's normal policy to provide Executive Directors with rolling 12 month contracts, which provide for 12 months notice from the Company and six months notice from the Director. Service contracts provide for summary termination in the event of gross misconduct. In other circumstances, any severance payment would normally be based on a valuation of net pay and benefits for any unexpired notice period in the expectation that the Director has made reasonable attempts to mitigate his loss. Benefits normally include membership of a pension scheme and a healthcare scheme and the use of a company car. The Remuneration Committee has decided to introduce, for new appointees to the Board, phased compensation payments on loss of office. This reflects emerging best practice.

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

*To normal retirement age (60).

**No payment should normally be payable on termination, other than the salary and benefits due for the notice period and, subject to the discretion of the Remuneration Committee, such entitlements under incentive plans that are consistent with the terms of such plans.

Non-Executive Directors do not have service contracts, but operate under a letter of appointment which provides for their tenure of office to be reviewed when they are about to stand for re-election, which is every three years. In any event, Non-Executive Directors may not serve after the AGM following their 67th birthday. There is no notice period and no provision for termination payments. The dates of appointment of the Non-Executive Directors are set out on page 14.

Components of remuneration packages

Basic salary

The policy is to set salary broadly in line with median market levels and is based on individual performance and on information from independent professional sources on the salary levels for similar jobs in comparator companies. In setting salaries, salary levels in the Group and in the wider employment market are taken into account.

The proportion of the Group's basic salary bill attributable to the Directors and other members of the Executive Committee was 0.8% (2004 0.8%).

The average basic salary and short-term bonus of the Executive Directors during the year was £621,394 (2004 £660,055) and the

Remuneration report continued

average per non-Board employee was £13,320 (2004 £13,700); the ratio is therefore 1:47 (2004 1:48). The Board and the Remuneration Committee do not have a policy on this ratio, but aim to reward all employees fairly according to the nature of their role, their performance and market forces.

In the year under review, the average basic salary increase for members of the Executive Committee, which includes the Executive Directors, was 2.9%, whereas the average increase for other employees was 3.8%.

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

Annual performance bonus

Challenging performance goals are set which must be achieved before a bonus becomes payable. Up to 2004/05, the maximum bonus opportunity has been 80% of salary. For the year to 1 October 2005, 60% was linked to earnings per share ('eps') and 20% to personal and Group business objectives as set out on page 24. At the Remuneration Committee's discretion, the bonus is payable either in cash or in shares under the Short Term Deferred Incentive Plan as set out below.

Short Term Deferred Incentive Plan ('STDIP')

Under the STDIP, an award of bonus shares earned in 2004/05 will be deferred for three years and, if the Executive Director is in the Company's employment at the end of that period, the Company will provide matching shares on a 1:1 basis.

Vesting of matching shares takes place subject to the achievement of a three year performance condition, as approved by shareholders at the 2005 AGM. There is no retesting of the performance condition. For awards of matching shares in respect of the financial year 2004/05, the performance condition is based on growth in eps as described under the Executive Share Option Plan below.

Eps has been applied because it is a measure which reflects movement in shareholder value and the target, if met, would represent a significant and challenging improvement in the Company's performance.

The Company's auditors will review performance against the target.

Performance Restricted Share Plan ('PRSP')

The PRSP allows Executive Directors to receive cash or nominal cost options over shares subject to the satisfaction of a performance condition set by the Committee which is measured over a three year period. Currently, three cycles are being operated, with performance conditions based on total shareholder return ('TSR') and cash return on capital employed ('CROCE') exceeding the weighted average cost of capital ('WACC') as described below.

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

Company	Cycle to September 2005	Cycle to September 2006	Cycle to September 2007
Enterprise Inns	•	•	•
Fuller, Smith & Turner*		•	•
Greene King	•	•	•
J D Weatherspoon	•	•	•
Luminar	•	•	•
Pizza Express*	•		
Punch Taverns	•	•	•
Regent Inns	•	•	•
Scottish & Newcastle*	•		
The Restaurant Group	•	•	•
Whitbread	•	•	•
Wolverhampton & Dudley	•	•	•
Yates*	•	•	

*Pizza Express was replaced with Fuller, Smith & Turner; Scottish & Newcastle was removed from the group following its disposal of its pubs business; Yates was removed following its delisting.

For the cycle to September 2005 the Company has to finish in first to sixth position for an award to 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 Company finished in ninth position, so no award will vest. For the cycle to September 2006 and September 2007, the Company has to finish in first to fifth position for an award to vest, graded between 100% of the TSR element of the award for first to 20% for fifth position. Below fifth position the award relating to TSR lapses.

The vesting of the other 50% of the award is based on the average amount by which the Company's CROCE exceeds WACC over the performance period. The award for this element of the performance measure is graded so that, for the cycle to September 2005, if the amount by which the CROCE exceeds WACC over the performance period is at least 4.5 percentage points, 100% of the CROCE element of the award will vest. If the excess is 3 percentage points, 20% of the award will vest. In between 3 and 4.5 percentage points, the award will be graded on a straight line basis. Below 3 percentage points, there will be no award in respect of this element. The excess of CROCE over WACC for the cycle to September 2005 was 4.2 percentage points, therefore 84% of this element of the award will vest.

For the cycles to September 2006 and September 2007, the vesting of the other 50% is based on the excess of CROCE over WACC as described above, except that if the amount by which the CROCE exceeds WACC over the performance period is at least 5 percentage points, 100% of the CROCE element of the award will vest, whereas if the excess is 3.5 percentage points, 20% will vest.

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

The Company's auditors review the performance condition under PRSP.

Executive Share Option Plan ('EXSOP')

Grants of EXSOP options have been made annually. Grants have been made at the discretion of the Committee according to seniority, the

maximum value in any one year being two times salary. A performance condition, set by the Committee, has to be met before the options may be exercised. The performance condition for the grant made in May 2003 was based on the cumulative growth of the Company's eps over the three year performance period exceeding RPI by 12 percentage points. As this performance condition has been achieved, 100% of the options will become exercisable in May 2006. For options granted in 2004, the performance measure is that cumulative eps over the three year performance period must increase by at least 18 percentage points over the growth in RPI before the options can be exercised in full. For options granted in 2005, the performance measure is that the Company's cumulative eps over the three year performance period must increase by at least 27 percentage points over the growth in RPI before options can be exercised in full. In measuring eps growth to determine whether the performance condition has been satisfied, the Committee uses adjusted/pro forma eps as reported in the year as shown on page 61. The Company's auditors review the performance measure under EXSOP.

Subject to approval by shareholders at the 2006 AGM of the proposed amendments to the share plans, as described below, it is intended to cease granting options under this plan.

Rolled-over options

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

Other share plans

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

Companies used for comparison

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

- Industry sector to include direct competitors and the wider retail sector;
- Size – turnover, profits, margins and the number of people employed; and
- Structure and complexity of the business.

The companies currently used for comparison are:

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

Performance graph – Total shareholder return

From its listing on 15 April 2003 until 21 December 2003, the Company was a constituent of the FTSE 100 index. Since then it has been included in the FTSE 250 index. The graph

below therefore measures the Company's TSR performance, assuming dividends are reinvested, against both the FTSE 100 and 250 indices.

Mitchells & Butlers TSR v FTSE 100 & 250 15.04.03 – 30.09.05



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

Review of Executive Directors' remuneration

Background

The current Executive Directors' remuneration package was introduced in April 2003 on the demerger of the Company from Six Continents PLC. Since demerger, the Committee has made certain adjustments to the incentive arrangements to reflect evolving best practice, for example, by the removal of retesting and an increase in the performance challenge on eps growth, as well as the introduction, under the STDIP, of a performance measure which has to be satisfied before the release of matching shares under the plan.

During the year, the Committee commissioned an in-depth review of the Executive Directors' remuneration, which was carried out by Watson Wyatt, benefits consultants. This review concluded that, whilst the incentive arrangements had clearly contributed to Mitchells & Butlers' strong financial performance since demerger, the package was overly complex, slightly out of step with current market trends, a little over reliant on deferred remuneration and did not sufficiently incentivise or reward exceptional performance. As a result, the Committee is proposing certain changes for the financial year 2005/06, subject to shareholders giving the requisite approval at the forthcoming AGM. These are:

1. To simplify the remuneration package

This is to be done by reducing the number of share-based incentive plans from three to two, through ceasing to grant any further options under the EXSOP. To compensate for the removal of EXSOP option grants, the level of award under the PRSP will increase from the current 90% of basic salary to 177%.

Having considered the effect on the expected value of the current equity incentives of discontinuing the EXSOP and including dividends on vested shares under future PRSP awards (as explained in paragraph 3 below) and, using a present economic value methodology consistent with the requirements of IFRS 2 'Share-based Payments', the Committee's advisers calculated that an appropriate rate at which to substitute future EXSOP options, on an equivalent basis, with PRSP options, would be around 2.1:1. The Committee accepted this advice, as it is the Committee's intention to maintain

Remuneration report continued

the current overall value of the combined EXSOP and PRSP options, taking into account the value of including dividends, as recommended by the Association of British Insurers.

The existing performance measures of TSR and excess of CROCE over WACC will remain to support the Company's strategic objectives of delivering a strong return on capital, cash generation and operational out-performance to grow market share.

2. To make the remuneration package a little less reliant on deferred remuneration

Previously, the Committee has generally required 100% deferral of bonus into shares under the STDIP. Whilst this was believed to have been appropriate in the early years of establishing the Company on demerger, the time is now right to introduce more flexibility to allow account to be taken of individual financial circumstances and to make the remuneration package a little less reliant on deferred remuneration. Therefore, from 2005/06, the Committee will require that 50% of the annual performance bonus be deferred into shares and Executive Directors will have the choice to defer the balance of the bonus into shares.

All bonuses deferred will continue to qualify for an award of matching shares by the Company at a ratio of up to 1:1, subject to the achievement of a further performance condition. It is intended that this performance condition will continue to be based on eps growth over three years and that the 2005/08 award of matching shares will be subject to the same sliding scale condition as applied to the EXSOP grant of 24 May 2005, as described on page 21.

To support the Company's commitment to ensuring that Directors' interests are aligned to those of shareholders, the unusually high mandatory shareholding requirement, which for the Chief Executive is three times his salary and for the other Executive Directors is

twice salary, will be maintained. However, for any future Executive Director appointment, it is proposed to reduce the mandatory shareholding requirement to one times salary, subject to this continuing to be reflective of market practice at that time.

3. Alignment with market practice and institutional guidelines

This is to be achieved with effect from financial year 2005/06 by increasing the maximum annual performance bonus payable through the STDIP from 80% of basic salary to 100% of basic salary. The Committee has been advised that this is in line with recent market trends.

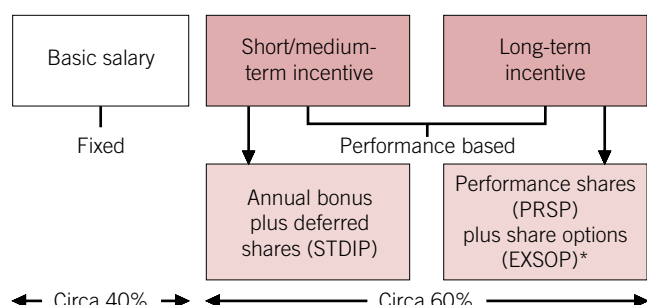
The current 25:75 ratio of personal business objectives to Company financial performance, measured through eps, is to be maintained. Personal business objectives will continue to be set to support the execution of the Company's strategic objectives and include such measures as like-for-like sales growth, return on investment, and evaluation of guest satisfaction.

The Remuneration Committee has decided to bring the remuneration package more in line with emerging institutional best practice guidelines, thus aligning the interests of the Executive Directors more closely with shareholders. Therefore for awards made under the STDIP and PRSP by reference to 2005/06 onwards, credit will be given for dividends paid during the performance period. Under the PRSP, this will be done by making a grant of an option over Dividend Accrued Shares (exercisable immediately on the payment of £1) whose market value at the date of grant is as close as possible to, and no more than, the value of dividends paid in respect of shares which have vested at the end of the performance period. Under the STDIP, an award of Dividend Accrued Shares would be made on the same basis, in respect of both the bonus shares and the matching shares to the extent that these have vested.

Summary of Executive Director remuneration – current and proposed

	Current	Proposed
Executive Share Option Plan	<ul style="list-style-type: none"> Maximum annual award of two times basic salary. 3 year eps growth performance condition. 	<ul style="list-style-type: none"> No further awards made under the EXSOP.
Short Term Deferred Incentive Plan	<ul style="list-style-type: none"> Maximum annual performance bonus – 80% of basic salary. Remuneration Committee requires 100% deferral into bonus shares. Bonus shares matched 1:1 subject to 3 year eps growth performance condition. 	<ul style="list-style-type: none"> Maximum annual performance bonus – 100% of basic salary. Remuneration Committee will require 50% deferral into bonus shares. A Director can elect to receive the balance in cash or defer up to 100%. Bonus shares matched 1:1 subject to 3 year eps growth performance condition. Dividend Accrued Shares awarded, equivalent to gross dividend applicable over the performance period for vested bonus shares and matching shares.
Performance Restricted Share Plan	<ul style="list-style-type: none"> Annual award of 90% of basic salary. 3 year performance period. Performance condition based on TSR and CROCE over WACC. 	<ul style="list-style-type: none"> Annual award of 177% of basic salary. 3 year performance period and performance condition as currently applies. Dividend Accrued Shares equivalent to gross dividend applicable over the performance period for vested shares.

The main components of Executive Directors' remuneration for on target performance both before and after the proposed changes remain:



*From financial year 2005/06 there will be no further grants under EXSOP.

Directors' emoluments

	Basic salaries and fees £000	Annual performance bonus £000	Benefits £000	Total emoluments (excluding pensions)	
				2005 53 weeks £000	2004 52 weeks** £000
Executive Directors					
Mike Bramley	356	177	16	549	550
Tim Clarke	528	289	25	842	913
Tony Hughes	356	194	25	575	606
Karim Naffah	376	205	14	595	641
Non-Executive Directors					
Roger Carr	203	–	–	203	207
George Fairweather	50	–	–	50	49
Drummond Hall*	43	–	–	43	7
Sir Tim Lankester	43	–	–	43	42
Sara Weller	50	–	–	50	49
Total 2005	2,005	865	80	2,950	–
Total 2004	1,882	1,105	76	–	3,064

*Appointed July 2004, Drummond Hall's fees are paid to Dairy Crest Group plc, his employer.

**The prior year is restated to remove the value of shares awarded under the Share Incentive Plan, shown on page 25.

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

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

Shareholder approval

The Committee confirms that the proposed changes are consistent with its overall remuneration policy as disclosed on page 19. Whilst the Company does not require formal shareholder approval for the increase in the PRSP grant level, it does require such approval for the inclusion of Dividend Accrued Shares in the PRSP and in the STDIP and for the increase in the STDIP annual incentive. Appropriate resolutions are being put to the forthcoming AGM. Subject to approval by shareholders at the AGM of the proposals summarised above, it is intended that no further awards will be made under the EXSOP.

The rest of this Remuneration Report on pages 23 to 28 has been audited by Ernst & Young LLP.

Remuneration report continued

Salary

As at 1 October 2005 and 29 November 2005, the basic annual salaries of the Executive Directors were as shown below. The normal salary review date has been changed with respect from 2005/06 onwards from 1 October to 1 January.

	01.10.05 and 29.11.05 £000
Executive Director	
Mike Bramley	350
Tim Clarke	520
Tony Hughes	350
Karim Naffah	370

Annual performance bonus

The bonus for each Executive Director for 2004/05 was as follows:

Executive Director	Maximum bonus achievable £000	Gross value of bonus awarded* £000	Gross value of bonus deferred £000	Eps target £000	Group & personal objectives £000	Net value of bonus awarded** £000
Mike Bramley	280	177	177	145	32	104
Tim Clarke	416	289	145	216	73	171
Tony Hughes	280	194	194	145	49	114
Karim Naffah	296	205	103	153	52	121

*The Committee exercised its discretion to defer 100% of bonus in respect of Mike Bramley and Tony Hughes and 50% of bonus in respect of Tim Clarke and Karim Naffah into shares under the STDIP. Tim Clarke and Karim Naffah received the balance of their award in cash as both will have achieved their mandatory stockholding requirement as detailed on page 22 by 31 December 2005.

** Assuming income tax at 40% and NI at 1%.

To achieve maximum bonus, Directors had to meet targets to support the Company's strategy related to the Company's earnings per share performance, and Group and personal business objectives.

- Group and personal business objectives related to:
 - like-for-like sales
 - effective purchasing
 - staff productivity
 - return on investment
 - guest satisfaction
 - asset management.
- Personal business objectives related to the financial performance in the business areas for which the Director was responsible.

Short Term Deferred Incentive Plan

In respect of 2003 and 2004, all of the Directors' bonus awards were deferred into shares. The table below shows the maximum matching shares received or receivable. These include those shares in respect of 2004 which were awarded in December 2004.

Director	2005								Earliest vesting date
	Number of shares as at 26.09.04	Value of shares as at 26.09.04* £000	Number of shares awarded in 2004/05 ^{1,2}	Value of shares awarded in the year £000**	Number of shares vested in the year ²	Value of shares vested in the year £000***	Total number of shares at 01.10.05	Total value as at 01.10.05 £000****	
Mike Bramley	17,343	45	31,463	101	5,781	18	43,025	157	07.12.05
Tim Clarke	26,682	69	59,874	193	8,894	28	77,662	284	07.12.05
Tony Hughes	17,343	45	39,329	127	5,781	18	50,891	186	07.12.05
Karim Naffah	18,678	48	42,264	136	6,226	20	54,716	200	07.12.05

*Based on share price on 25 September 2004 – 259p

**Based on share price on 7 December 2004, the date of award – 322.25p

***Based on share price on 9 December 2004, the date of vesting – 316.5p

****Based on share price on 1 October 2005 – 365.25p

¹These shares relate to the bonus award in respect of 2003/04.

²No performance condition attached to these matching shares under the rules of the STDIP as approved by shareholders on demerger. All future awards of matching shares have a performance condition. Shares vest subject to tax and NI.

As part of the terms of demerger, the Company provided 17,371 shares in December 2004 to Tim Clarke to meet entitlements he had accrued under the Six Continents Special Deferred Incentive Plan for 2002/03 to the date of demerger.

Performance Restricted Share Plan

The PRSP was introduced on demerger, initially to replace the Six Continents Long Term Incentive Plan for Mitchells & Butlers' executives. Participation in the PRSP is by means of an option which is exercisable for nominal consideration, once the performance condition has been satisfied.

In 2005, there were three cycles of the plan in operation as outlined below.

- A 30 months performance period to September 2005. The combined award, which vests on 1 December 2005, from the two measures (TSR and excess of CROCE over WACC as described on page 20) is equivalent to 37.8% of basic salary at the date of the award.
- A 36 months performance period to September 2006. The combined maximum award from the two measures is equivalent to 90% of basic salary at the date of the award.
- A 36 months performance period to September 2007. The combined maximum award is also equivalent to 90% of basic salary at the date of the award.

Details of the performance measures are set out on page 20.

The maximum number of shares available as at the year end in respect of all three cycles as described above, and assuming all performance targets are achieved, is:

Executive Director	Maximum potential shares as at 26.09.04 shares	Shares lapsed in year* shares	Shares granted in year** shares	Maximum potential shares as at 01.10.05 shares	Maximum potential award as at 01.10.05*** £000	Earliest vesting date****
Mike Bramley	355,888	88,636	98,822	366,074	1,337	01.12.05
Tim Clarke	545,361	136,363	146,822	555,820	2,030	01.12.05
Tony Hughes	355,888	88,636	98,822	366,074	1,337	01.12.05
Karim Naffah	382,954	95,454	104,470	391,970	1,432	01.12.05

*No awards vested during the financial year 2004/05.

**The share price on 3 December 2004, the date of award, was 321.50p.

***Based on the share price on 1 October 2005 – 365.25p.

****Shares vest subject to tax and NI.

Share Incentive Plan

In respect of the all employee SIP, as described on page 21, the Executive Directors had the following conditional entitlements as at 1 October 2005, subject to the rules of the plan:

Director	Free shares awarded on 30.06.03@ 232.5p which vest on 30.06.06	Free shares awarded on 28.06.04@ 271.75p which vest on 28.06.07	Free shares awarded on 30.06.05 @ 330p which vest on 30.06.08*	Total shares
Mike Bramley	692	1,044	872	2,608
Tim Clarke	910	1,103	909	2,922
Tony Hughes	756	1,044	872	2,672
Karim Naffah	834	1,103	909	2,846

*The share price on 30 June 2005, the date of award, was 334.25p.

Remuneration report continued

Directors' share options

Director	Ordinary shares under option				Weighted average option price	Option price	Earliest exercise date	Last expiry date
	25.09.04	Granted	Exercised	01.10.05				
Mike Bramley								
A	97,704		97,704	346,277	272.93p	214.47p		27.05.12
B	346,277							
C	562,146	214,658		776,804	260.04p		27.05.06	23.05.15
Total	1,006,127	214,658	97,704	1,123,081	264.01p			
Tim Clarke								
A	250,245		244,400 5,845	727,074	280.76p	214.47p 181.42p		28.02.11
B	727,074							
C	870,003	318,920		1,188,923	258.71p		27.05.06	23.05.15
Total	1,847,322	318,920	250,245	1,915,997	267.08p			
Tony Hughes								
A	144,189		144,189	409,127	280.07p	214.47p		27.05.12
B	409,127							
C	567,619	214,658		782,277	259.40p		27.05.06	23.05.15
Total	1,120,935	214,658	144,189	1,191,404	266.50p			
Karim Naffah								
A	437,302		2,783 321,784	394,712	261.19p	181.42p 189.50p		28.02.11
B	281,977							
C	609,287	226,924		836,211	259.43p		27.05.06	23.05.15
Total	1,328,566	226,924	324,567	1,230,923	260.00p			

Except as detailed in the PRSP table, no Directors' options over Mitchells & Butlers plc shares lapsed during the year. No price was paid for the grant of any of the options.

Options granted during the year are exercisable under the EXSOP (the performance condition for which is set out on page 21). Options granted under the EXSOP are exercisable between 27 May 2006 and 23 May 2015 subject to the achievement of performance conditions. Rolled-over options became exercisable on demerger from Six Continents in April 2003 and, if not exercised, will lapse on various dates up to October 2012. Rolled-over options ceased to be subject to performance conditions on demerger. Sharesave options are exercisable between 1 October 2006 and 31 March 2011.

Shares under option at 1 October 2005 are designated as:

- A Where the options are exercisable and the market price per share was above the option price at 1 October 2005;
- B Where the options are exercisable, but the market price per share at 1 October 2005 was below the option price; and
- C Where the options are not yet exercisable and the market price was above the option price on 1 October 2005.

The market price per share on 1 October 2005 was 365.25p and the range during the year to 1 October 2005 was 257.5p to 389.75p per share.

The above table excludes potential awards under the PRSP, which are shown on page 25.

Directors' shareholdings	Ordinary shares of 7½p	
	01.10.05	25.09.04
Executive Directors		
Mike Bramley	47,926	18,176
Tim Clarke	427,978	352,960
Tony Hughes	62,793	24,164
Karim Naffah	144,380	48,627
Non-Executive Directors		
Roger Carr	11,067	1,067
George Fairweather	–	–
Drummond Hall	2,500	–
Sir Tim Lankester	–	–
Sara Weller	2,200	2,200

The above shareholdings are all beneficial interests and include shares held on behalf of the Executive Directors by the Trustee of the Company's SIP which are detailed on page 25. None of the Directors has a beneficial interest in the shares of any subsidiary or in debenture stocks of the Company or any subsidiary.

At 1 October 2005, the Executive Directors, as potential beneficiaries under the Company's Employee Benefit Trust ('the Trust'), were technically deemed to be interested in 1,303,068 Mitchells & Butlers ordinary shares held in the Trust.

In the period from 2 October 2005 to 29 November 2005, there has been no change in the Directors' interests, other than to the balance of the shares held in the Trust which is now 1,296,199 shares.

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

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 provide 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.

Directors' pension benefits

Director	Years of pensionable service	Age at 01.10.05	Directors' contribution* £	Transfer value of accrued pension		Increase in transfer value over year less Directors' contributions £	Increase in accrued pension ** £ pa	Increase in accrued pension *** £ pa	Accrued pension at 01.10.05 **** £
				25.09.04 £	01.10.05 £				
Mike Bramley	25	54	17,200	2,609,000	3,270,000	643,800	20,600	14,900	216,500
Tim Clarke	15	48	15,500	2,368,900	2,976,600	592,200	19,900	13,000	256,600
Tony Hughes	10	57	15,500	1,426,900	1,877,300	434,900	16,000	13,300	108,500
Karim Naffah	14	42	15,500	944,800	1,262,700	302,400	16,000	12,300	141,600

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

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

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

**** Accrued pension is that which would be paid annually on retirement at 60, based on service to 1 October 2005.

Remuneration report continued

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

Transfer values have been calculated in a manner consistent with the Retirement Benefits Schemes – Transfer Values (GN11) 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. 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.

2. Early retirement rights

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

3. 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.

4. Other discretionary benefits

Other than the discretionary pension increases mentioned in 3, there are no discretionary practices which are taken into account in calculating transfer values on leaving service.

Approved by the Board

Sara Weller

Chairman of the Remuneration Committee
29 November 2005

Directors' responsibilities in relation to the financial statements

The following statement, which should be read in conjunction with the report of the independent auditors set out on page 29, 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 30 to 60 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 53 weeks ended 1 October 2005 which comprise the Group profit and loss account, Statement of total recognised group gains and losses, Note of historical cost group profits and losses, Reconciliation of movement in group shareholders' funds, Balance sheets, Group cash flow statement and the related notes 1 to 34. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

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

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 nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not.

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Operating and Financial Review, Directors' Report, unaudited part of the

Directors' Remuneration Report, Corporate Governance statement, Audit Committee Report and the Four Year Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 1 October 2005 and of the profit of the Group for the 53 weeks then ended, and the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
London
29 November 2005

Group profit and loss account

for the 53 weeks ended 1 October 2005

	notes	2005 53 weeks			2004 52 weeks restated*		
		Before exceptional items £m	Exceptional items (see note 9) £m	Total £m	Before exceptional items £m	Exceptional items (see note 9) £m	Total £m
Turnover	5	1,662	–	1,662	1,560	–	1,560
Costs and overheads	4	(1,365)	(4)	(1,369)	(1,287)	(2)	(1,289)
Operating profit	5	297	(4)	293	273	(2)	271
Profit on disposal of fixed assets	9	–	1	1	–	2	2
Profit on ordinary activities before interest		297	(3)	294	273	–	273
Interest on net debt	10	(105)	–	(105)	(101)	(2)	(103)
Net finance income in respect of pensions	8	3	–	3	1	–	1
Profit on ordinary activities before taxation		195	(3)	192	173	(2)	171
Tax on profit on ordinary activities	11	(62)	3	(59)	(56)	3	(53)
Earnings available for shareholders		133	–	133	117	1	118
Dividends on equity shares	12	(53)	–	(53)	(550)	–	(550)
Retained profit/(loss) for the financial year	27	80	–	80	(433)	1	(432)
Earnings per ordinary share:	13						
Basic		–	–	26.0p	–	–	21.1p
Diluted		–	–	25.6p	–	–	21.0p
Adjusted		26.0p	–	–	20.9p	–	–

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

All activities relate to continuing operations.

The notes on pages 34 to 60 form an integral part of these financial statements.

Statement of total recognised group gains and losses

for the 53 weeks ended 1 October 2005

	notes	2005 53 weeks £m	2004 52 weeks restated* £m
Earnings available for shareholders		133	118
Actuarial (loss)/gain on pension schemes	8	(7)	39
Deferred tax relating to actuarial (loss)/gain		2	(12)
Exchange differences arising on foreign currency net investments		–	(1)
Total recognised gains for the year		128	144
Prior year adjustment on the full adoption of FRS 17	3	(219)	
Total recognised losses since previous year end		(91)	

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Note of historical cost group profits and losses

for the 53 weeks ended 1 October 2005

	2005 53 weeks £m	2004 52 weeks restated* £m
Reported profit on ordinary activities before taxation	192	171
Realisation of revaluation gains of previous periods	4	2
Historical cost profit on ordinary activities before taxation	196	173
Historical cost profit/(loss) retained for the financial year	84	(430)

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Reconciliation of movement in group shareholders' funds

for the 53 weeks ended 1 October 2005

	notes	2005 53 weeks £m	2004 52 weeks restated* £m
Total recognised gains for the year		128	144
Dividends		(53)	(550)
Issue of ordinary shares		2	8
Purchase of own shares	25, 27	(101)	(12)
Proceeds on release of own shares held		14	1
Credit in respect of employee share schemes		4	7
Net decrease in shareholders' funds		(6)	(402)
Opening shareholders' funds as previously reported		1,642	2,064
Prior year adjustment on the full adoption of FRS 17		(219)	(239)
Opening shareholders' funds as restated		1,423	1,825
Closing shareholders' funds		1,417	1,423

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

The notes on pages 34 to 60 form an integral part of these financial statements.

Balance sheets

1 October 2005

	notes	Group		Company	
		2005	2004 restated*	2005	2004 restated*
		£m	£m	£m	£m
Fixed assets					
Intangible assets	14	10	10	–	–
Tangible assets	15	3,516	3,509	–	–
Investments	16	–	–	1,739	1,740
		3,526	3,519	1,739	1,740
Current assets					
Stocks	17	39	43	–	–
Debtors	18	76	82	140	141
Investments		71	144	2	77
Cash at bank and in hand		129	81	79	66
		315	350	221	284
Creditors: amounts falling due within one year	19	(350)	(326)	(1,566)	(1,596)
Net current (liabilities)/assets		(35)	24	(1,345)	(1,312)
Total assets less current liabilities		3,491	3,543	394	428
Creditors: amounts falling due after more than one year	20	(1,786)	(1,822)	–	–
Provisions for liabilities and charges		(189)	(184)	–	–
Deferred taxation	23	(185)	(182)	–	–
Other provisions for liabilities and charges	24	(4)	(2)	–	–
Net assets before net pension liabilities		1,516	1,537	394	428
Net pension liabilities	8	(99)	(114)	(99)	(114)
Net assets		1,417	1,423	295	314
Capital and reserves					
Called up share capital	25, 27	35	37	35	37
Share premium account	27	14	12	14	12
Capital redemption reserve	27	2	–	2	–
Revaluation reserve	27	335	339	–	–
Profit and loss account reserve	27	1,031	1,035	244	265
Equity shareholders' funds		1,417	1,423	295	314

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Signed on behalf of the Board

Tim Clarke

Karim Naffah

29 November 2005

The notes on pages 34 to 60 form an integral part of these financial statements.

Group cash flow statement

for the 53 weeks ended 1 October 2005

	notes	2005 53 weeks £m	2004 52 weeks £m
Net cash inflow from operating activities			
Before separation costs		400	379
Separation costs paid		–	(1)
	28	400	378
Returns on investments and servicing of finance			
Interest paid		(113)	(107)
Issue costs paid in respect of securitised debt		–	(22)
Interest received		11	9
		(102)	(120)
Taxation			
UK corporation tax paid		(43)	(34)
Capital expenditure			
Purchase of tangible fixed assets		(167)	(150)
Sale of tangible fixed assets		57	51
		(110)	(99)
Equity dividends paid			
Normal dividends		(50)	(44)
Special dividend		–	(501)
		(50)	(545)
Net cash inflow/(outflow) before management of liquid resources and financing		95	(420)
Management of liquid resources			
Decrease/(increase) in short-term deposits and investments		73	(141)
Financing			
Issue of ordinary share capital		2	8
Purchase of own shares		(101)	(12)
Proceeds on release of own shares held		14	1
Proceeds from issue of securitised debt		–	1,900
Repayments of principal in respect of securitised debt		(35)	(28)
Borrowings drawn down under syndicated loan facility		–	25
Borrowings repaid in respect of syndicated loan facility		–	(1,243)
		(120)	651
Increase in cash	30	48	90

The notes on pages 34 to 60 form an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets. They comply with applicable accounting standards in the United Kingdom, including FRS 17 'Retirements Benefits' which has been applied in full for the first time this year. Further details regarding the adoption of FRS 17 are provided in note 3.

Basis of consolidation

The Group's financial statements include the results of Mitchells & Butlers plc and all of its subsidiaries for the 53 week period ended 1 October 2005. The comparative period is for the 52 week period ended 25 September 2004. The respective balance sheets have been drawn up to 1 October 2005 and 25 September 2004.

Turnover

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

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

Fixed assets and depreciation

Goodwill

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

Tangible assets

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

Revaluation

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

Impairment

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

Depreciation and amortisation

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

Freehold land is not depreciated.

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

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

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

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

Fixed asset investments

The Company's investments in group undertakings are held at cost less provision for impairment. 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.

Leases

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

Pensions

For the Group's defined benefit arrangements, the current service cost of providing pension benefits to employees, together with the cost of any benefits relating to past service, is charged to operating profit and included in staff costs. The interest cost and the expected return on assets are shown as a net amount of finance cost or income adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised group gains and losses. The difference between the market value of the pension scheme assets and the present value of accrued pension liabilities is shown separately as an asset or liability on the balance sheet, net of related deferred tax.

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

1. Accounting policies continued

Stocks

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

Foreign currencies

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

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

Debt instruments and derivatives

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

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

Share-based compensation

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

The cost of own shares held in treasury ('treasury shares') or by the Company's employee share trusts for the purpose of fulfilling obligations in respect of the Group's employee share plans are deducted from shareholders' funds in the Group and Company balance sheets.

Exceptional items

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

after operating profit. Exceptional items and the tax thereon are excluded from the calculation of adjusted earnings per share.

Use of estimates

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

2. Exchange rates

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.45 (2004 £1 = €1.48) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.47 (2004 £1 = €1.47).

Notes to the financial statements continued

3. Change in accounting policy

The Group has adopted FRS 17 'Retirement Benefits' in full with effect from 26 September 2004. In prior years, the Group has complied with the transitional disclosure requirements of this standard. FRS 17 has been adopted in full in light of the introduction of International Financial Reporting Standards from 1 January 2005; the measurement principles in the equivalent international accounting standard are similar to those in FRS 17. The change in accounting policy therefore provides investors with greater clarity of earnings and net assets going forward.

The full adoption of FRS 17 has resulted in a change in the accounting treatment of the Group's defined benefit arrangements. In particular, the net liabilities of the pension schemes are included on the balance sheet, current service costs and net financial returns are included in the profit and loss account and actuarial gains and losses are recognised in the statement of total recognised group gains and losses. Further information on FRS 17 is provided in notes 1 and 8. Previous accounting under SSAP 24 'Accounting for Pension Costs' required the charging of regular costs and variations from regular cost in the profit and loss account with the difference between the cumulative amounts charged and the payments made to the pension schemes shown as either a prepayment or creditor on the balance sheet. This change in accounting policy has been accounted for as a prior year adjustment and previously reported figures have been restated accordingly, as follows:

Group profit and loss account

	Profit before interest £m	Interest £m	Tax £m	Earnings £m
52 weeks to 25 September 2004				
As previously reported	285	(103)	(57)	125
Adoption of FRS 17	(12)	1	4	(7)
As restated	273	(102)	(53)	118

The restated earnings have resulted in restated eps numbers; basic, diluted and adjusted eps have been restated from 22.4p, 22.2p and 22.2p to 21.1p, 21.0p and 20.9p respectively.

Balance sheets

	Debtors £m	Deferred taxation £m	Net pension liabilities £m	Shareholders' funds £m
25 September 2004				
Group				
As previously reported	222	(217)	–	1,642
Adoption of FRS 17	(140)	35	(114)	(219)
As restated	82	(182)	(114)	1,423
Company				
As previously reported	280	(34)	–	533
Adoption of FRS 17	(140)	35	(114)	(219)
Reclassification	1	(1)	–	–
As restated	141	–	(114)	314

4. Costs and overheads

	2005 53 weeks £m	2004 52 weeks restated* £m
Raw materials and consumables	438	406
Changes in stocks of finished goods and work in progress	4	–
Staff costs (note 7)	432	414
Depreciation of tangible fixed assets	116	107
Amortisation of goodwill	–	1
Hire of plant and machinery	35	31
Property rentals	47	45
Other external charges	297	285
	1,369	1,289

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Operating exceptional costs of £4m (2004 £2m) are included in 'Other external charges'.

5. 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	
	2005 53 weeks	2004 52 weeks	2005 53 weeks	2004 52 weeks restated*	2005	2004
	£m	£m	£m	£m	£m	£m
Pubs & Bars	957	913	180	173	2,067	2,106
Restaurants	697	641	116	99	1,339	1,320
Retail	1,654	1,554	296	272	3,406	3,426
SCPD	8	6	1	1	17	19
	1,662	1,560	297	273	3,423	3,445
Exceptional items			(3)	(2)		
Interest on net debt (excluding exceptional interest charge in 2004)			(105)	(101)		
Net finance income in respect of pensions			3	1		
Profit before taxation			192	171		

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

The segmental profit above has been shown before charging the exceptional items described in note 9. After allocating licensing costs and profits on disposal of fixed assets, segmental profits are Pubs & Bars £178m (2004 £175m), Restaurants £115m (2004 £99m) and SCPD £1m (2004 £1m). Due to the nature of the other exceptional costs incurred in 2004, it is not possible to provide a meaningful allocation of these costs to the operating segments.

	2005 £m	2004 restated* £m
Net operating assets reconciliation		
Net assets	1,417	1,423
Net debt	1,625	1,632
Corporate taxation	60	59
Deferred tax provision	185	182
Net pension liabilities	99	114
Proposed dividend	37	34
Balances relating to exceptional items	–	1
Net operating assets	3,423	3,445

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Notes to the financial statements continued

6. Auditors' remuneration

Auditors' remuneration paid to Ernst & Young LLP was:

	2005 53 weeks £m	2004 52 weeks £m
Audit fees	0.5	0.4
Audit related fees	0.1	0.2
	0.6	0.6

Substantially all remuneration was paid in the UK.

7. Employees and directors

	2005 53 weeks £m	2004 52 weeks restated* £m
Costs		
Wages and salaries	388	370
Social security costs	30	29
Pensions (note 8)	14	15
	432	414

	Number	Number
Average number of employees, including part-time employees		
Retail	37,407	37,200
SCPD	4	7
	37,411	37,207

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in shares, is given in the Remuneration Report on pages 18 to 28.

8. Pensions

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

In the 53 weeks ended 1 October 2005, the Group paid regular contributions to the pension plans of £12m in respect of the defined benefit arrangements and additional contributions of £30m. In 2004, the regular contributions were £4m (£5m in relation to 2004 was prepaid in 2003) and additional contributions were £40m. Employer contribution rates to the defined benefit arrangements for 2005/06 are 16.5% for the MABPP and 34.0% for the MABEPP. It has also been agreed that further additional contributions of £30m will be paid over the next two years, of which £10m relates to the agreement reached at the time of the securitisation. £20m of these additional contributions were paid on 21 October 2005.

The Group also paid £1m (2004 £1m) in respect of the defined contribution arrangements.

8. Pensions continued

The Group has adopted FRS 17 'Retirement Benefits' in full for the 53 weeks ended 1 October 2005 and prior year amounts have been restated accordingly. See note 3 for further details. In previous years, the Group accounted for pensions under SSAP 24 and gave disclosures under the transitional arrangements of FRS 17.

Pension costs are assessed in accordance with the advice of independent qualified actuaries. The Group's total pension cost included within operating profit for the 53 weeks ended 1 October 2005 under FRS 17 was £14m (2004 £15m), comprising £13m (2004 £14m) in respect of the defined benefit pension arrangements and £1m (2004 £1m) in respect of the defined contribution arrangements.

The total pension cost for the 53 weeks ended 1 October 2005 included within operating profit compares to £45m (2004 £3m) which would have been incurred under SSAP 24. The SSAP 24 cost would have been higher this year reflecting the impact of the full actuarial valuations of the pension schemes at 31 March 2004. If FRS 17 had not been adopted, the net assets of the Group would have been £200m higher at 1 October 2005 under SSAP 24.

The valuations used for FRS 17 purposes are based on the results of the full actuarial valuations carried out at 31 March 2004 updated by the independent qualified actuaries to 1 October 2005. Scheme assets are stated at market value at 1 October 2005 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

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

	2005	2004	2003
Wages and salaries increases	4.3%	4.3%	4.2%
Pensions increases	2.8%	2.8%	2.7%
Discount rate	5.0%	5.5%	5.3%
Inflation rate	2.8%	2.8%	2.7%

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

	2005		2004		2003	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	7.5	564	8.0	460	8.0	396
Bonds	4.6	428	4.9	373	4.9	355
Property	7.5	90	8.0	82	8.0	74
Total market value of assets		1,082		915		825
Present value of scheme liabilities		(1,230)		(1,088)		(1,068)
Deficit in the schemes		(148)		(173)		(243)
Related deferred tax asset		49		59		73
Net pension liabilities		(99)		(114)		(170)

Notes to the financial statements continued

8. Pensions continued

The following amounts relating to the Group's defined benefit arrangements have been recognised in the Group profit and loss account and Statement of total recognised group gains and losses:

Group profit and loss account

	2005 £m	2004 £m
Operating profit:		
Current service cost	(12)	(14)
Past service cost	(1)	–
Charge to operating profit	(13)	(14)
Interest:		
Expected return on pension scheme assets	62	57
Interest on pension scheme liabilities	(59)	(56)
Net finance income in respect of pensions	3	1
Net pension cost before taxation	(10)	(13)

Statement of total recognised group gains and losses

	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	100	27
Experience gains and losses arising on the scheme liabilities	–	20
Changes in assumptions underlying the present value of the scheme liabilities	(107)	(8)
Actuarial (loss)/gain recognised	(7)	39

The movement in the combined MABPP and MABEPP deficit is analysed as follows:

	2005 £m	2004 £m
Deficit at 26 September 2004	(173)	(243)
Operating profit charge	(13)	(14)
Net finance income	3	1
Contributions paid	42	44
Actuarial (loss)/gain recognised	(7)	39
Deficit at 1 October 2005	(148)	(173)

History of experience gains and losses:

	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets				
Amount (£m)	100	27	39	(124)
Percentage of scheme assets	9%	3%	5%	(17)%
Experience gains and losses on scheme liabilities				
Amount (£m)	–	20	(11)	(23)
Percentage of the present value of the scheme liabilities	–	2%	(1)%	(3)%
Total amount recognised in the Statement of total recognised group gains and losses				
Amount (£m)	(7)	39	(71)	(228)
Percentage of the present value of the scheme liabilities	(1)%	4%	(7)%	(25)%

9. Exceptional items

	notes	2005 53 weeks £m	2004 52 weeks £m
Operating exceptional items			
Licensing costs	a	(4)	–
Securitisation costs	b	–	(2)
Total operating exceptional items		(4)	(2)
Non-operating exceptional items			
Profit on disposal of fixed assets		1	2
Total exceptional items before interest		(3)	–
Exceptional interest charge	c	–	(2)
Total exceptional items before tax		(3)	(2)
Tax credit on above items		3	3
Total exceptional items after tax		–	1

a Licensing costs are those incurred in relation to obtaining new licences for the Group's pubs and pub restaurants as required by the Licensing Act 2003.

b Securitisation costs related to operating expenses incurred in relation to the securitisation of the Group's UK pubs and restaurants business.

c The exceptional interest charge in 2004 arose from the acceleration of facility fee amortisation in respect of the Group's borrowing facilities which were repaid on securitisation.

All exceptional items relate to continuing operations.

Total exceptional items after tax are excluded from the calculation of adjusted earnings per share (see note 13).

10. Interest on net debt

	note	2005 53 weeks £m	2004 52 weeks £m
Interest payable and similar charges			
Securitised debt		116	100
Bank overdrafts and loans			
– before exceptional charge		–	10
– exceptional charge	9	–	2
		116	112
Interest receivable		(11)	(9)
Interest on net debt		105	103

Notes to the financial statements continued

11. Tax on profit on ordinary activities

	2005 53 weeks			2004 52 weeks restated*		
	Before exceptional items £m	Exceptional items (see note 9) £m	Total £m	Before exceptional items £m	Exceptional items (see note 9) £m	Total £m
Tax charge						
UK corporation tax at 30% (2004 30%)						
Current year	45	1	46	45	–	45
Prior years	(1)	(1)	(2)	(2)	–	(2)
Total current tax	44	–	44	43	–	43
Deferred tax						
Origination and reversal of timing differences	6	(3)	3	12	(3)	9
Prior years	–	–	–	(1)	–	(1)
	6	(3)	3	11	(3)	8
Deferred tax on defined benefit pension schemes	12	–	12	2	–	2
Total deferred tax	18	(3)	15	13	(3)	10
Tax on profit on ordinary activities	62	(3)	59	56	(3)	53
Further analysed as tax relating to:						
Profit before exceptional items	62	–	62	56	–	56
Exceptional items (note 9): Operating	–	(1)	(1)	–	–	–
Non-operating	–	(2)	(2)	–	(2)	(2)
Interest	–	–	–	–	(1)	(1)
	62	(3)	59	56	(3)	53

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

	2005 %	2004 restated* %
Tax reconciliation		
UK corporation tax at standard rate	30.0	30.0
Permanent differences	2.1	3.9
Capital allowances in excess of depreciation	(4.0)	(7.4)
Other timing differences	(5.4)	(1.2)
Overseas losses not utilised	0.2	0.3
Adjustment to tax charge in respect of prior years	(0.1)	(1.1)
Exceptional items	0.1	0.6
Effective current tax rate	22.9	25.1
Effective current tax rate before exceptional items	22.6	24.9

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Factors which may affect future tax charges

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

12. Dividends

	2005 £m	2004 £m
Normal interim dividend paid of 3.20p per share (2004 2.85p per share)	16	15
Proposed final dividend of 7.55p per share (2004 6.65p per share)	37	34
Total normal dividend of 10.75p per share (2004 9.50p per share)	53	49
Special interim dividend paid in 2004 of 68p per share	–	501
	53	550

The proposed final dividend, if approved by shareholders at the forthcoming AGM, will be paid on 6 February 2006 to shareholders registered on 9 December 2005.

13. Earnings per share

Basic earnings per share have been calculated by dividing the earnings available for shareholders of £133m (2004 £118m restated*) by 511m (2004 559m), being the weighted average number of ordinary shares in issue during the year, excluding own shares held in treasury and by employee share trusts.

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 520m (2004 563m).

In December 2003, the Company combined the payment of a special dividend (see note 12) with a 12 for 17 consolidation of its share capital. These transactions were designed to have the same overall commercial effect, in terms of net assets, earnings and number of shares, as a buy-back of shares at fair value. Accordingly, earnings per share for prior periods were not restated for the share consolidation.

Adjusted earnings per ordinary share are calculated as follows:

	notes	2005 53 weeks pence per ordinary share	2004 52 weeks restated* pence per ordinary share
Basic earnings		26.0	21.1
Exceptional items, less tax thereon	9, 11	–	(0.2)
Adjusted earnings		26.0	20.9

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Adjusted earnings per share are disclosed in order to show performance undistorted by exceptional items and thereby give shareholders a clearer understanding of the trading performance of the Group.

Notes to the financial statements continued

14. Intangible fixed assets

Group	Goodwill £m
Cost	
At 26 September 2004 and 1 October 2005	15
Amortisation	
At 26 September 2004 and 1 October 2005	5
Net book value	
At 1 October 2005 and 25 September 2004	10

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

15. Tangible fixed assets

Group	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 26 September 2004	2,844	945	3,789
Additions	76	93	169
Disposals	(34)	(60)	(94)
Reclassification	5	(5)	–
At 1 October 2005	2,891	973	3,864
Depreciation			
At 26 September 2004	68	212	280
Provided during the year	19	97	116
Disposals	–	(48)	(48)
At 1 October 2005	87	261	348
Net book value			
At 1 October 2005	2,804	712	3,516
At 25 September 2004	2,776	733	3,509

Properties

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

In 1996, a group restructuring by Six Continents resulted in the transfer at book value of certain fixed assets to a subsidiary that subsequently became part of the Mitchells & Butlers group. The book value included the effect of revaluations undertaken prior to 1996. Accordingly, the carrying value of the Group's fixed assets reflects those revaluations in its historic cost, which at 1 October 2005 amounted to £386m (2004 £392m). In addition, the carrying value of the Group's fixed assets reflects the 1999 revaluation (see below) which at 1 October 2005 amounted to £335m (2004 £339m).

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.

15. Tangible fixed assets continued

Historical cost

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

	2005 £m	2004 £m
Cost	2,477	2,424
Depreciation	(95)	(76)
Net book value	2,382	2,348

Net book value

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

	2005			2004 £m
	Cost or valuation £m	Depreciation £m	Net book value £m	
Freehold	2,593	(37)	2,556	2,530
Leasehold: unexpired term of more than 50 years	113	(4)	109	102
unexpired term of 50 years or less	185	(46)	139	144
	2,891	(87)	2,804	2,776
Cost or valuation of land and buildings: 1999 valuation	1,389			
Cost	1,502			
	2,891			

16. Fixed asset investments

Company	Shares in group undertakings £m
Cost	
At 26 September 2004 and 1 October 2005	1,745
Provision	
At 26 September 2004	5
Provided during the year	1
At 1 October 2005	6
Net book value	
At 1 October 2005	1,739
At 25 September 2004	1,740

Notes to the financial statements continued

16. Fixed asset investments continued

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

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

*Shares held directly by Mitchells & Butlers plc.

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

17. Stocks

Group	2005 £m	2004 £m
Work in progress	17	20
Goods held for resale	22	23
	39	43

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

18. Debtors

	Group		Company	
	2005 £m	2004 restated* £m	2005 £m	2004 restated* £m
Trade debtors	2	3	–	–
Amounts owed by group undertakings	–	–	112	124
Other debtors	38	42	–	–
Corporate taxation	–	–	26	16
Prepayments	36	37	–	–
Deferred tax asset (note 23)	–	–	2	1
	76	82	140	141

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

All amounts fall due within one year except for the deferred tax asset which falls due after more than one year.

19. Creditors: amounts falling due within one year

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Borrowings (note 21)	39	35	11	–
Trade creditors	67	41	–	–
Corporate taxation	60	59	–	–
Other taxation and social security	42	42	–	–
Accrued charges	78	90	–	–
Proposed dividend	37	34	37	34
Amounts owed to group undertakings	–	–	1,518	1,561
Other creditors	27	25	–	1
	350	326	1,566	1,596

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

	Group	
	2005 £m	2004 £m
Borrowings (note 21)	1,786	1,822

21. Borrowings

Group	2005			2004		
	Within one year £m	After one year £m	Total £m	Within one year £m	After one year £m	Total £m
Securitised debt*	36	1,785	1,821	32	1,821	1,853
Loan notes**	2	–	2	2	–	2
Finance leases	1	1	2	1	1	2
Total borrowings	39	1,786	1,825	35	1,822	1,857
Company						
Overdrafts	11	–	11	–	–	–
Total borrowings	11	–	11	–	–	–

*This debt is secured as explained on page 48.

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

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Analysis by year of repayment				
Due within one year or on demand	39	35	11	–
Due between one and two years	38	37	–	–
Due between two and five years	128	121	–	–
Due after five years	1,620	1,664	–	–
Total borrowings	1,825	1,857	11	–

Notes to the financial statements continued

21. Borrowings continued

Securitised debt

On 13 November 2003, a group company, Mitchells & Butlers Finance plc, issued £1,900m of secured loan notes in connection with the securitisation of the majority of the Group's UK pubs and restaurants business owned by Mitchells & Butlers Retail Limited. The funds raised were mainly used to repay existing bank borrowings of £1,243m, pay issue costs of £23m and return £501m to shareholders by way of a special dividend (see note 12).

The loan notes consist of six tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period	Principal outstanding at 1 October 2005 £m	Expected WAL
A1	200	Floating	By instalments 2011 to 2028	200	5 years
A2	550	5.574%	By instalments 2003 to 2028	507	11 years
A3	250	Floating	By instalments 2011 to 2028	250	5 years
B1	350	5.965%	By instalments 2003 to 2023	330	9 years
B2	350	6.013%	By instalments 2015 to 2028	350	19 years
C	200	6.469%	By instalments 2029 to 2030	200	24 years
	1,900			1,837	

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

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

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

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

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

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other group companies. At 1 October 2005, Mitchells & Butlers Retail Limited had short-term deposits and cash of £119m (2004 £98m) which were governed by the covenants associated with the securitisation. Of this amount £16m (2004 £4m), representing disposal proceeds, was held on deposit in a secured account ('restricted cash'). The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

The carrying value of the loan notes in the Group balance sheet at 1 October 2005 is analysed as follows:

	£m
Principal outstanding at 26 September 2004	1,872
Principal repaid during the period	(35)
Principal outstanding at 1 October 2005	1,837
Deferred issue costs	(20)
Accrued interest	4
Carrying value at 1 October 2005	1,821

21. Borrowings continued

Facilities committed by banks

	Group	
	2005 £m	2004 £m
Utilised	–	–
Unutilised	280	280
	280	280
Unutilised facilities expire:		
Within one year	220	220
Between two and five years	60	60
	280	280

The unutilised facility expiring within one year was renewed in November 2005 for a further 364 days.

22. Financial instruments

The Group's treasury policy and use of financial instruments are discussed in the Operating and Financial Review on page 6. The disclosures in this note exclude short-term debtors and creditors where permitted by FRS 13.

Principal hedging instruments

In order to manage interest rate risk, the Group has entered into interest rate and currency swap agreements that fix the interest payable on the floating rate tranches of the securitised debt (see note 21). At 1 October 2005, these agreements were for a notional principal amount of £450m (2004 £450m).

Currency and interest rate profile of financial assets and liabilities

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

	2005			2004		
	Total £m	Non-interest bearing £m	Floating rate £m	Total £m	Non-interest bearing £m	Floating rate £m
Financial assets						
Sterling	194	3	191	219	2	217
Euro	6	–	6	6	–	6
	200	3	197	225	2	223

Financial assets comprise cash of £129m (2004 £81m) and current asset investments of £71m (2004 £144m).

	2005						Weighted average fixed rate %	Weighted average period fixed (years)
	Total before currency swaps £m	Currency swaps £m	Total after currency swaps £m	Non-interest bearing £m	Floating rate £m	Fixed rate £m		
Financial liabilities								
Sterling	1,581	248	1,829	4	2	1,823	6.15	12
US dollar	248	(248)	–	–	–	–	–	–
	1,829	–	1,829	4	2	1,823	6.15	12

Notes to the financial statements continued

22. Financial instruments continued

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

Financial liabilities comprise borrowings of £1,825m (2004 £1,857m) as disclosed in note 21 and provisions for property leases of £4m (2004 £2m).

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

Currency risk

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

Fair values of financial assets and liabilities

	2005		2004	
	Net book value £m	Fair value £m	Net book value £m	Fair value £m
Cash	129	129	81	81
Current asset investments	71	71	144	144
Securitised debt (excluding interest rate and currency swaps)	(1,808)	(1,952)	(1,835)	(1,909)
Loan notes	(2)	(2)	(2)	(2)
Finance leases	(2)	(2)	(2)	(2)
Provisions for property leases	(4)	(4)	(2)	(2)
Interest rate swaps	–	(31)	–	(6)
Currency swaps	(13)	(17)	(18)	(22)
	(1,629)	(1,808)	(1,634)	(1,718)

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

Gains and losses on hedges

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

	Gains £m	Losses £m	Net £m
Unrecognised at 26 September 2004	–	(10)	(10)
Arising in previous years that were recognised in the year	–	1	1
Arising in previous years that were not recognised in the year	–	(9)	(9)
Arising in the year but not recognised	–	(26)	(26)
Unrecognised at 1 October 2005	–	(35)	(35)
Analysed as:			
Expected to be recognised in 2005/06	–	(6)	(6)
Expected to be recognised thereafter	–	(29)	(29)
	–	(35)	(35)

23. Deferred taxation

	Group £m	Company £m
At 26 September 2004		
As previously reported	217	34
Adoption of FRS 17	(35)	(35)
As restated*	182	(1)
Profit and loss account	3	(1)
At 1 October 2005	185	(2)

Analysed as tax on timing differences related to:

	Group	
	2005	2004 restated*
	£m	£m
Fixed assets	141	135
Deferred gains	49	49
Other	(5)	(2)
	185	182

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Tax losses with a value of £6m (2004 £6m) 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 £214m (2004 £230m restated). It is not anticipated that any such tax will be payable in the foreseeable future.

The Company had a deferred tax asset of £2m at 1 October 2005 (2004 £1m as reclassified) relating to other timing differences.

24. Other provisions for liabilities and charges

Group	Property leases £m
At 26 September 2004	2
Additions	2
At 1 October 2005	4

Onerous property leases extend for periods of up to nine years.

Notes to the financial statements continued

25. Called up share capital

	2005		2004	
	Number of shares	£m	Number of shares	£m
Authorised				
Redeemable preference shares of £50,000 each	1	–	1	–
Redeemable deferred shares of 1p each	2	–	2	–
Ordinary shares of 7½p each	1,424,304,000	101	1,424,304,000	101
	1,424,304,003	101	1,424,304,003	101
Called up, allotted and fully paid				
Ordinary shares of 7½p each	500,438,040	35	523,792,544	37

The Company repurchased and cancelled 24,236,000 ordinary shares during the year at a cost of £83m, including expenses. The cost has been charged against distributable profits and the nominal value of the share capital cancelled of £2m has been transferred to the Capital redemption reserve.

During the year, 881,496 ordinary shares were issued on the exercise of rolled-over options (see below). The aggregate consideration received on the issue of these shares was £2m.

Options to subscribe for ordinary shares

	Rolled-over options millions	Post separation options millions	Total millions
At 26 September 2004	15.2	16.8	32.0
Granted	–	5.9	5.9
Exercised	(6.4)	–	(6.4)
Lapsed	(1.6)	(2.1)	(3.7)
At 1 October 2005	7.2	20.6	27.8

Rolled-over options were originally granted under the Six Continents Executive Share Option Schemes. On separation from Six Continents on 15 April 2003, employees and certain former employees of the Six Continents group had the opportunity to roll over their options over Six Continents PLC shares into options over Mitchells & Butlers plc shares. The number of options exchanged and the exercise prices were calculated in accordance with a formula based on the closing Six Continents' and opening Mitchells & Butlers' share prices, both averaged over a five-day period. Exercise prices in respect of outstanding options range from £2.14 to £3.64 and options are exercisable until 28 May 2012. These options are not subject to a future performance condition.

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

Sharesave

An Inland Revenue approved savings scheme open to all employees, whereby the proceeds from the savings contract, of either three or five years duration, are used to purchase shares under options granted at the commencement of the savings contract, at a discount of 20% to the market value of the shares at the date of grant. The options may be exercised up to six months after the maturity of the savings contract. Outstanding options over 4.9m shares were in existence at 1 October 2005 (2004 4.7m); 1.1m at an exercise price of £2.59, 1.2m (2004 1.5m) at an exercise price of £2.09 and 2.6m (2004 3.2m) at an exercise price of £1.69.

Executive Share Option Plan

A discretionary share plan whereby options may be granted to senior management at the prevailing market price at the date of grant. Options generally become exercisable between three and ten years after the date of grant, subject to achievement of a performance condition. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 21. Outstanding options over 11.3m shares were in existence at 1 October 2005 (2004 8.0m); 3.4m at an exercise price of £3.26, 0.1m at an exercise price of £3.31, 3.8m (2004 3.9m) at an exercise price of £2.53 and 4.0m (2004 4.1m) at an exercise price of £2.19.

Performance Restricted Share Plan

A discretionary share plan whereby options are granted to a small group of the Company's most senior executives. Options are exercisable within two years after the completion of a three year performance period. Details of the performance conditions attached to these options are contained in the Remuneration Report on page 20. Outstanding options over 4.4m shares were in existence at 1 October 2005 (2004 4.1m); all options have an exercise price of £1 per employee per share plan.

26. Employee share trusts

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After five years the shares may be transferred to or sold by the employee free of income tax and national insurance contributions. The Trust buys the shares in the market with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 1 October 2005, the trustees, Hill Samuel ESOP Trustee Limited, were holding 836,811 (2004 627,974) shares in the Company. Of these shares, 809,503 (2004 605,689) have been conditionally gifted to employees.

Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Executive Share Option Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Rolled over options. The Trust purchases shares in the market from time to time, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the Trust. At 1 October 2005, the trustees, Mourant & Co Trustees Limited, were holding 1,303,068 shares (2004 3,736,671) in the Company. Of these shares, 179,402 (2004 277,320) have been conditionally gifted to employees and 822,859 (2004 822,859) are under option.

27. Share capital and reserves

Group	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Profit and loss account reserve			Total share capital and reserves £m
					Own shares £m	Other £m	Total £m	
At 26 September 2004:								
As previously reported	37	12	–	339	(11)	1,265	1,254	1,642
Adoption of FRS 17	–	–	–	–	–	(219)	(219)	(219)
As restated*	37	12	–	339	(11)	1,046	1,035	1,423
Issue of ordinary shares	–	2	–	–	–	–	–	2
Purchase of own shares	(2)	–	2	–	(18)	(83)	(101)	(101)
Release of own shares held	–	–	–	–	17	(3)	14	14
Credit in respect of employee share schemes	–	–	–	–	–	4	4	4
Actuarial loss on pension schemes	–	–	–	–	–	(7)	(7)	(7)
Deferred tax relating to actuarial loss	–	–	–	–	–	2	2	2
Revaluation surplus realised	–	–	–	(4)	–	4	4	–
Retained profit for the year	–	–	–	–	–	80	80	80
At 1 October 2005	35	14	2	335	(12)	1,043	1,031	1,417

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

Goodwill eliminated against reserves at 1 October 2005 was £50m (2004 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

Included in the profit and loss account reserve is a pension reserve of £99m (2004 £114m) which equates to the net pension liabilities under FRS 17.

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had profit and loss account reserves of £748m at 1 October 2005 (2004 £709m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 21).

Notes to the financial statements continued

27. Share capital and reserves continued

Company	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserve £m	Profit and loss account reserve			Total share capital and reserves £m
					Own shares £m	Other £m	Total £m	
At 26 September 2004:								
As previously reported	37	12	–	45	(11)	450	439	533
Adoption of FRS 17	–	–	–	(45)	–	(174)	(174)	(219)
As restated*	37	12	–	–	(11)	276	265	314
Issue of ordinary shares	–	2	–	–	–	–	–	2
Purchase of own shares	(2)	–	2	–	(18)	(83)	(101)	(101)
Release of own shares held	–	–	–	–	17	(3)	14	14
Credit in respect of employee share schemes	–	–	–	–	–	4	4	4
Actuarial loss on pension schemes	–	–	–	–	–	(7)	(7)	(7)
Deferred tax relating to actuarial loss	–	–	–	–	–	2	2	2
Retained profit for the year	–	–	–	–	–	67	67	67
At 1 October 2005	35	14	2	–	(12)	256	244	295

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

The profit and loss account reserve is wholly distributable after the deduction for Own shares.

The Other reserve related to the Company's SSAP 24 pension prepayment. On the adoption of FRS 17 the prepayment was derecognised as part of the prior year adjustment resulting in the elimination of the reserve.

Included in the profit and loss account reserve is a pension reserve of £99m (2004 £114m) which equates to the net pension liabilities under FRS 17.

The Company has taken advantage of Section 230 of the Companies Act 1985 and not presented its own profit and loss account. A profit after tax of £120m (2004 £45m restated for FRS 17), less dividends of £53m (2004 £550m), is dealt with in the accounts of the parent company.

Own shares

Own shares held by the Group and Company represent the shares in the Company held in treasury ('treasury shares') and by the employee share trusts.

During the year, 4,290,000 treasury shares were acquired at a cost of £14m and, of these, 2,182,102 shares were subsequently released to employees on the exercise of share options for a total consideration of £6m. The 2,107,898 shares held in treasury at 1 October 2005 had a market value of £7.7m. The aggregate nominal value of the treasury shares held at 1 October 2005 was £0.1m.

During the year, the employee share trusts acquired 1,229,080 shares at a cost of £4m and released 3,453,846 shares to employees on the exercise of options and other share awards for a total consideration of £8m. The 2,139,879 shares held by the trusts at 1 October 2005 had a market value of £7.8m (25 September 2004, 4,364,645 shares held had a market value of £11.3m). Further details regarding the employee share trusts are given in note 26.

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

	2005 53 weeks £m	2004 52 weeks restated* £m
Operating profit before exceptional items	297	273
Depreciation and amortisation	116	108
Earnings before interest, taxation, depreciation, amortisation and exceptional items	413	381
Decrease in stocks	4	–
(Increase)/decrease in debtors	(2)	10
Increase in creditors	12	20
Additional pension contributions	(30)	(40)
Movement in provisions	2	(2)
Other non-cash items	5	14
Net cash inflow from operating activities before expenditure relating to exceptional items	404	383
Operating exceptional expenditure	(4)	(4)
Separation costs paid	–	(1)
Net cash inflow from operating activities	400	378

*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 3).

29. Net cash flow

	2005 53 weeks £m	2004 52 weeks £m
Net cash inflow from operating activities before expenditure relating to exceptional items*	404	383
Net capital expenditure	(110)	(99)
Operating cash flow after net capital expenditure	294	284
Net interest paid (excluding issue costs paid in respect of securitised debt in 2004)	(102)	(98)
Tax paid	(43)	(34)
Normal dividends paid	(50)	(44)
Issue of ordinary share capital	2	8
Purchase of own shares	(101)	(12)
Proceeds on release of own shares held	14	1
Special dividends paid	–	(501)
Operating exceptional expenditure	(4)	(4)
Separation costs paid	–	(1)
Issue costs paid in respect of securitised debt	–	(22)
Net cash flow	10	(423)

*Includes £30m (2004 £40m) of additional pension contributions.

30. Net debt

	At 26 September 2004 £m	Movement arising from cash flows £m	Non-cash movement in net debt £m	At 1 October 2005 £m
Cash at bank and in hand	81	48	–	129
Liquid resources (current asset investments)	144	(73)	–	71
Borrowings due within one year	(35)	35	(39)	(39)
Borrowings due after one year	(1,822)	–	36	(1,786)
	(1,632)	10	(3)	(1,625)

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

Cash at bank and in hand includes restricted cash of £16m (2004 £4m). See note 21 for further details.

Notes to the financial statements continued

30. Net debt continued

Reconciliation of net cash flow to movements in net debt

	2005 53 weeks £m	2004 52 weeks £m
Increase in cash	48	90
Management of liquid resources	(73)	141
Financing activities	120	(651)
Issue of ordinary share capital	2	8
Purchase of own shares	(101)	(12)
Proceeds on release of own shares held	14	1
Net cash flow (note 29)	10	(423)
Issue costs paid in respect of securitised debt	–	22
Decrease/(increase) in net debt arising from cash flows	10	(401)
Non-cash movement in net debt	(3)	(3)
Decrease/(increase) in net debt	7	(404)
Opening net debt	(1,632)	(1,228)
Closing net debt	(1,625)	(1,632)

31. Financial commitments

Operating lease commitments

The Group has annual commitments under operating leases at 1 October 2005 which expire as follows:

	Properties		Other	
	2005 £m	2004 £m	2005 £m	2004 £m
Within one year	2	1	3	3
Between one and five years	3	2	3	3
After five years	37	39	–	–
	42	42	6	6

Capital commitments

	Group	
	2005 £m	2004 £m
Contracts placed for expenditure on fixed assets not provided for in the financial statements	28	26

32. 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 such indemnities are not expected to result in financial loss to the Group.

33. Related party disclosures

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

34. US GAAP reconciliations

The financial statements set out on pages 30 to 56 are prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP) which differ from those generally accepted in the United States (US GAAP). The significant differences, as they apply to the Group, are summarised below.

Intangible fixed assets

Under UK GAAP, goodwill arising on the acquisition of subsidiaries is capitalised and amortised over its estimated useful life. Goodwill arising on acquisitions prior to 30 September 1998 was eliminated against reserves. Under US GAAP, the Group adopted SFAS 142 'Goodwill and Other Intangible Assets' with effect from 1 October 2002. In accordance with SFAS 142, goodwill would be capitalised and not amortised, but tested annually for impairment. Prior to 1 October 2002 under US GAAP, goodwill would have been capitalised and amortised over its estimated useful life, not exceeding 40 years.

Under UK GAAP, computer software is included in tangible fixed assets. Under US GAAP, software which is not an integral part of a related item of hardware would be treated as an intangible asset.

Impairment of goodwill

Under UK GAAP, goodwill is tested for potential impairment when there is an indication that impairment may have occurred. The impairment is measured by comparing the goodwill carrying value of the relevant income-generating unit with the higher of net realisable value and value in use. Under US GAAP, SFAS 142 requires goodwill to be tested for impairment on an annual basis, or on an interim basis when a triggering event occurs, using a two-step process. The first step requires the comparison of the fair value of each reporting unit to its carrying value. If the fair value of the reporting unit exceeds its carrying value, then no further testing is required. If the carrying value of a reporting unit exceeds its fair value, a second step is required to determine the amount of the impairment charge, if any. An impairment charge is recognised if the carrying value of a reporting unit's goodwill exceeds the fair value of that goodwill. The Group has performed an updated evaluation of its goodwill as at 1 October 2005 which has concluded that an impairment charge is not required under SFAS 142.

Tangible fixed assets

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

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

Under UK GAAP, impairment of tangible fixed assets is measured with reference to discounted cash flows. Under US GAAP, if the carrying value of assets is supported by undiscounted cash flows there would be no impairment.

Assets held for sale

US GAAP would require that where the value of an asset will be recovered through a sale transaction rather than continuing use the asset is classified as held for sale. Assets held for sale are valued at the lower of book value and fair value less costs to sell and no longer depreciated. Under UK GAAP, there is no held for sale classification.

Lease premiums

Under US GAAP, payments made on entering into operating leases would be classified as current and non current prepayments and amortised over the life of the lease. Under UK GAAP, such payments are included in tangible fixed assets.

Share-based compensation

Under UK GAAP, the Group makes a charge for the cost of share awards or share options based on the difference between the fair value of the shares on the date of the award and the amount the scheme participant may be required to pay for the shares. The expense is recognised over the performance period of the relevant scheme based on a reasonable expectation of the extent to which the performance criteria will be met. Under APB 25 'Accounting for stock issued to employees', these awards and options would be accounted for as variable plans with the expense based on the intrinsic value using the share price at the balance sheet date, remeasured at each balance sheet date and spread over the performance period. Under US GAAP, a charge could therefore arise in respect of the Group's Executive Share Option Plan (no charge arises under UK GAAP as the exercise price is equivalent to the market value at date of grant).

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

Under UK GAAP, the National Insurance liability payable on gains made by employees on the exercise of share options is accrued during the performance period of the share scheme, calculated using the market price of the Company's shares at the balance sheet date. Under US GAAP, an accrual would only be recorded when the share options are exercised and a liability exists.

Pension costs

Under UK GAAP, amounts charged to the profit and loss account comprise the current service cost and net finance income or expense being the difference between the expected return on plan assets and the interest cost of the plan liabilities. Any amounts arising from changes in actuarial assumptions and differences between the expected and actual return on plan assets are recognised in the statement of total recognised group gains and losses. Under US GAAP, such amounts would be amortised through the income statement over the average remaining service lives of the employees.

Notes to the financial statements continued

34. US GAAP reconciliations continued

Under UK GAAP, the surplus or deficit in the pension plans is reported on the balance sheet. Under US GAAP, as the accumulated benefit obligations exceeded the fair value of the plans' assets the difference would be recognised as a balance sheet liability, after the elimination of any amounts previously recognised as a prepaid pension cost. An equal amount, not exceeding the amount of unrecognised past service cost, would be recognised as an intangible asset with the balance reported in other comprehensive income.

Compensated absences

Under US GAAP, an accrual would be made to reflect the cost of employees' unused vacation allowances at the point of entitlement, when the right to a compensated absence accumulates during the employee's period of service. No equivalent accrual has been made under UK GAAP.

Deferred taxation

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

Derivative instruments and hedging

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

Exceptional items

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

Classification of debt issuance costs

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

Proposed dividends

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

Earnings per share

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

Cash and cash equivalents

Under UK GAAP, cash at bank and in hand comprises deposits repayable on demand and restricted cash and excludes liquid resources (short-term deposits and investments of less than one year other than cash). Under US GAAP, cash and cash equivalents comprises deposits repayable on demand, liquid resources with a maturity of three months or less at the date acquired and excludes restricted cash.

Restricted cash

Restricted cash represents disposal proceeds held on deposit in a secured account. The use of these funds is restricted by the terms of the securitisation and may only be used with the approval of the security trustee for certain specified purposes such as capital enhancement expenditure and business acquisitions.

34. US GAAP reconciliations continued

Net income under US GAAP

The significant adjustments required to convert profit for the financial year in accordance with UK GAAP to net income in accordance with US GAAP are:

	2005 £m	2004 restated* £m	2005 \$m	2004 restated* \$m
Profit for the financial year in accordance with UK GAAP	133	118	246	211
Amortisation of intangible fixed assets	(5)	(3)	(9)	(5)
Depreciation of tangible fixed assets	6	5	11	9
Amortisation of lease premiums	(1)	(1)	(2)	(2)
Disposal of tangible fixed assets	13	11	24	20
Pension costs	(18)	(20)	(34)	(36)
Share-based compensation	(4)	(1)	(7)	(2)
Compensated absences	(6)	–	(11)	–
Change in fair value of derivatives	–	2	–	4
Deferred taxation	3	11	6	20
Total adjustments	(12)	4	(22)	8
Net income in accordance with US GAAP	121	122	224	219
	2005 £	2004 £	2005 \$	2004 \$
Net income per ordinary share				
Basic**	0.24	0.23	0.44	0.42
Diluted***	0.23	0.23	0.43	0.42
Translation rate (average rate)			£1=\$1.85	£1=\$1.79

*Restated to (a) reflect the adoption of FRS 17 under UK GAAP and (b) include computer software amortisation (£4m) in amortisation of intangible fixed assets and separately disclose the amortisation of lease premiums (£1m), both previously included within depreciation of tangible fixed assets. None of these adjustments have an impact on net income previously reported under US GAAP.

**Calculated by dividing net income in accordance with US GAAP by 511m (2004 520m), being the weighted average number of ordinary shares in issue during the year.

***Calculated by adjusting basic net income per ordinary share in accordance with US GAAP to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding during the year. The resulting weighted average number of ordinary shares is 517m (2004 523m).

Notes to the financial statements continued

34. US GAAP reconciliations continued

Shareholders' equity under US GAAP

The significant adjustments required to convert shareholders' funds in accordance with UK GAAP to shareholders' equity in accordance with US GAAP are:

	2005 £m	2004 restated* £m	2005 \$m	2004 restated* \$m
Shareholders' funds in accordance with UK GAAP	1,417	1,423	2,494	2,561
Intangible fixed assets:				
Goodwill: Cost	174	174	306	313
Accumulated amortisation	5	5	9	9
	179	179	315	322
Computer software: Cost	31	29	54	52
Accumulated amortisation	(15)	(10)	(26)	(18)
	16	19	28	34
Pension intangible asset	10	12	18	22
	205	210	361	378
Tangible fixed assets:				
Cost	(782)	(781)	(1,377)	(1,406)
Accumulated depreciation	(99)	(108)	(174)	(194)
	(881)	(889)	(1,551)	(1,600)
Non-current assets:				
Lease premiums	16	17	28	31
Deferred financing costs	18	20	32	36
Assets held for sale	9	–	16	–
Current assets:				
Cash and cash equivalents	183	201	322	362
Restricted cash	16	4	28	7
Cash at bank and in hand	(129)	(81)	(227)	(146)
Current asset investments	(70)	(124)	(123)	(223)
Lease premiums	1	1	2	2
Deferred financing costs	2	2	4	4
Creditors: amounts falling due within one year:				
Accrual for compensated absences	(6)	–	(11)	–
Share-based compensation	2	–	4	–
Borrowings	(2)	(2)	(4)	(4)
Proposed dividends	37	34	65	61
Derivatives	(6)	–	(11)	–
Creditors: amounts falling due after one year:				
Borrowings	(5)	(2)	(9)	(4)
Derivatives	(42)	(28)	(74)	(50)
Provisions for liabilities and charges:				
Accrued pension cost	(25)	(40)	(44)	(72)
Deferred taxation	55	60	97	108
Total adjustments	(622)	(617)	(1,095)	(1,110)
Shareholders' equity in accordance with US GAAP	795	806	1,399	1,451
Translation rate (year end rate)			£1=\$1.76	£1=\$1.80

*Restated to (a) reflect the adoption of FRS 17 under UK GAAP, (b) reclassify lease premiums of £18m paid in relation to operating leases from tangible fixed assets to current (£1m) and non-current assets (£17m), and (c) reclassify computer software of £19m from tangible fixed assets to intangible fixed assets. The latter two adjustments arose in connection with preparing to convert the Group's financial statements from UK GAAP to International Financial Reporting Standards. None of these restatements have an impact on previously reported shareholders' equity under US GAAP.

Four year review

Profit and loss account information

	2005 53 weeks £m	2005 52 weeks £m	2004 restated* £m	Pro forma 2003 restated* £m	Pro forma 2002 restated* £m	2003 restated* £m	2002 restated* £m
Turnover							
Pubs & Bars	957	939	913	873	863	873	863
Restaurants	697	684	641	614	605	614	605
Retail	1,654	1,623	1,554	1,487	1,468	1,487	1,468
SCPD	8	8	6	17	6	17	6
	1,662	1,631	1,560	1,504	1,474	1,504	1,474
Operating profit							
Pubs & Bars	180	176	173	172	184	172	184
Restaurants	116	114	99	92	93	92	93
Retail	296	290	272	264	277	264	277
SCPD	1	1	1	2	1	2	1
Operating exceptional items	(4)	(4)	(2)	–	–	(5)	–
Total operating profit	293	287	271	266	278	261	278
Non-operating exceptional items	1	1	2	–	–	(42)	(2)
Profit before interest	294	288	273	266	278	219	276
Finance charge	–	–	–	(76)	(86)	–	–
Interest on net debt	(105)	(103)	(101)	–	–	(55)	(43)
Exceptional interest charge	–	–	(2)	–	–	(8)	–
Net finance income/(charge) on pensions	3	3	1	(2)	6	(2)	6
Profit before taxation	192	188	171	188	198	154	239
Taxation	(59)	(58)	(53)	(61)	(63)	(37)	(78)
Profit for the financial year	133	130	118	127	135	117	161
Dividends	(53)	(53)	(550)	–	–	(29)	–
Retained profit/(loss)	80	77	(432)	127	135	88	161
Earnings per share							
Basic	26.0p	25.4p	21.1p	–	–	15.9p	21.9p
Diluted	25.6p	25.0p	21.0p	–	–	15.9p	21.9p
Adjusted/pro forma	26.0p	25.4p	20.9p	17.3p	18.4p	19.2p	22.1p
Adjusted/pro forma as reported in year	–	–	22.2p	18.4p	18.5p**	–	–
Dividends per share	10.75p	–	9.50p	–	–	5.65p	–

*Restated on the full adoption of FRS 17 'Retirement Benefits'.

**First disclosed in the Annual Report and Financial Statements 2003.

All years are for 52 week periods with the exception of 2005 which is a 53 week period. Results for 2005 are also presented on a 52 week basis to aid comparability with previous years. The 2005 results on a 52 week basis are unaudited.

The Mitchells & Butlers group was created on its separation from Six Continents on 15 April 2003. Significant changes were made to the financing structure of the Group which resulted in the replacement of inter company balances owed to Six Continents with external debt. In addition, the Mitchells & Butlers group no longer benefited from the Six Continents group tax arrangements that were in place prior to the separation. The pro forma group profit and loss accounts for 2003 and 2002 therefore present the results on the basis that the post separation financing and taxation structure had been in place since 1 October 2002. The pro forma profit and loss accounts are also stated before exceptional items.

Four year review continued

Balance sheet information

	2005 £m	2004 restated* £m	2003 restated* £m	2002 restated* £m
Intangible fixed assets	10	10	11	11
Tangible fixed assets	3,516	3,509	3,522	3,526
Total fixed assets	3,526	3,519	3,533	3,537
Stocks	39	43	43	49
Operating debtors	76	82	84	82
Operating creditors	(214)	(197)	(176)	(167)
Net current operating liabilities	(99)	(72)	(49)	(36)
Total operating assets less current operating liabilities	3,427	3,447	3,484	3,501
Provisions for liabilities and charges	(4)	(2)	(4)	(14)
Net operating assets	3,423	3,445	3,480	3,487
External (net debt)/cash	(1,625)	(1,632)	(1,228)	14
Balances owed to Six Continents group	–	–	–	(831)
Corporate taxation	(60)	(59)	(50)	(59)
Deferred taxation	(185)	(182)	(174)	(179)
Net pension liabilities	(99)	(114)	(170)	(139)
Proposed dividend	(37)	(34)	(29)	–
Balances relating to exceptional items	–	(1)	(4)	–
Net assets	1,417	1,423	1,825	2,293

*Restated on the full adoption of FRS 17 'Retirement Benefits'.

Cash flow information

	2005 £m	2004 restated* £m	Pro forma 2003 restated* £m	Pro forma 2002 restated* £m	2003 restated* £m	2002 restated* £m
Operating profit before exceptional items	297	273	266	278	266	278
Depreciation and amortisation	116	108	99	87	99	87
Other non-cash items	–	–	–	(1)	–	(1)
EBITDA**	413	381	365	364	365	364
Working capital movement	16	28	7	13	7	13
Additional pension contributions	(30)	(40)	(27)	(10)	(27)	–
Other non-cash items	5	14	(1)	(6)	(1)	(6)
Net cash inflow from operating activities**	404	383	344	361	344	371
Purchase of tangible fixed assets	(167)	(150)	(151)	(256)	(151)	(256)
Sale of tangible fixed assets	57	51	48	30	48	30
Net capital expenditure	(110)	(99)	(103)	(226)	(103)	(226)
Operating cash flow after capital expenditure**	294	284	241	135	241	145
Net interest paid	(102)	(98)	–	–	(49)	(43)
Tax paid	(43)	(34)	–	–	(44)	(82)
Normal dividends paid	(50)	(44)	–	–	–	–
Issue of ordinary share capital	2	8	–	–	4	–
Purchase of own shares	(101)	(12)	–	–	–	–
Proceeds on release of own shares held	14	1	–	–	–	–
Special dividends paid	–	(501)	–	–	–	–
Operating exceptional expenditure	(4)	(4)	–	–	(2)	–
Separation costs paid	–	(1)	–	–	(36)	–
Issue costs paid in respect of securitised debt	–	(22)	–	–	(1)	–
Facility fees paid	–	–	–	–	(15)	–
Net cash flow	10	(423)	–	–	98	20

*Restated on the full adoption of FRS 17 'Retirement Benefits'.

**Before exceptional items.

Forward-looking statements

Both the Annual Review and Summary Financial Statement 2005 and the Annual Report and Financial Statements 2005 contain certain forward-looking statements as defined under US legislation (Section 21E of the Securities Exchange Act of 1934) with respect to the financial condition, results of operations and business of Mitchells & Butlers and certain plans and objectives of the Board of Directors of Mitchells & Butlers with respect thereto. Such statements include, but are not limited to, statements made in the Chairman's Statement, the Chief Executive's Review and the Finance Director's Report. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe', or other words of similar meaning. These statements are based on assumptions and assessments made by Mitchells & Butlers' management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate.

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

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

Other factors that could affect the business and financial results are described in Item 3 Risk Factors in the Mitchells & Butlers Form 20-F filed, on 24 February 2005 or in any subsequent year, with the US Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Operating and financial review (OFR)

Pursuant to The Companies Act 1985 (Operating and Financial Review and Directors' Report etc.) Regulations 2005 ('the Regulations') Mitchells & Butlers is required to produce an operating and financial review which complies with the Regulations and the Accounting Standards Board's Reporting Standard 1: Operating and Financial Review ('RS1') for inclusion in the Company's next annual report and accounts for the year ending 30 September 2006. It appears at the date of this annual report, however, that the relevant requirements in the Regulations may be repealed. In accordance with past practice, the Directors of Mitchells & Butlers have included an operating and financial review in this annual report. However, this operating and financial review has not been audited or otherwise independently verified and has not necessarily been prepared in compliance with the Regulations or RS1.

Glossary

Amenity

Design, décor, furniture and facilities that contribute to the environment and atmosphere of a pub.

AWT (Average weekly take)

The average sales per pub per week, calculated as total sales divided by the average number of pubs trading during the year divided by the number of weeks in the financial year.

Brands

Outlets which trade under a common name, or their own individual names under an externally recognised group name, with a consistent design, drinks range, menu, service style and promotional programme.

Business franchise

An agreement where an entrepreneur gains access to high quality pubs and a sophisticated business support infrastructure whilst the Company retains its scale purchasing and overhead advantages and shares in the trading upside through a franchise fee. The Company receives a commercial rent for the property and retains the property ownership.

Capacity management

The process that seeks to ensure that a pub can service maximum volumes at peak trading times whilst maintaining customer satisfaction levels.

Central support costs

All costs associated with the central support infrastructure of the Company (e.g. finance, supply chain, IT, marketing, property, HR).

Cover volumes

The number of main meals sold.

EBIT

Earnings before interest, tax and exceptional items.

EBITDA

Earnings before interest, tax, depreciation, amortisation and exceptional items.

Formats

Outlets where to the customer's eye the business trades without any overt branding or badging but the customer offer and operating template are managed to defined standards.

Gross margin

Gross profit divided by sales, expressed as a percentage.

Gross profit

Sales less cost of goods sold, expressed in monetary terms (£s).

Incremental returns

Growth in annual pre-tax operating profit expressed as a percentage of the associated capital investment. For sites which do not have 12 months post-investment trading, incremental return is estimated based on an annualisation of actual post-investment trading.

Off-trade

Any retail outlet which has a licence to sell alcohol for consumption off the premises (e.g. supermarkets, off licences).

On-trade

Any retail outlet which has a licence to sell alcohol for consumption on the premises (e.g. pubs, restaurants, nightclubs, clubs).

Operating cash flow

The cash generated from the operations of the Company generally defined as revenues less all operating expenses.

Post-tax cash return

EBITDA less tax divided by average net operating assets less revaluation reserve plus accumulated depreciation plus goodwill written off.

Productivity

Sales less hourly paid wages divided by the number of hours worked.

Refinancing

The repayment of an existing loan with the proceeds from a new loan.

Same outlet like-for-like sales growth

The sales performance of all managed pubs that were trading for the two periods being compared (expressed as a percentage).

Securitisation

A means of raising finance secured on identifiable and predictable cash flows derived from a particular set of assets.

Share buy-back

The purchase in the open market by a listed company of its own shares.

Uninvested like-for-like sales growth

The sales performance of those managed pubs that have not received expansionary investment of more than £30,000 in either year being compared (expressed as a percentage).

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