Report

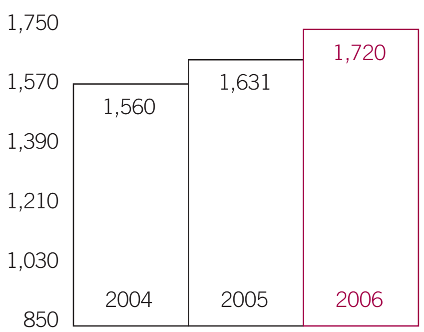
Mitchells & Butlers plc
Annual report and accounts 2006

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.

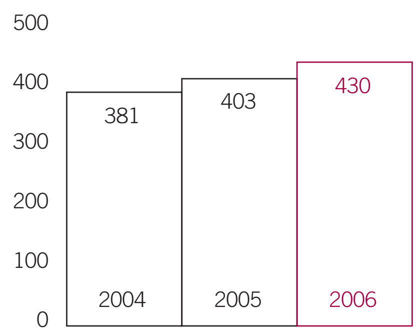
Financial highlights

Revenue of £1,720m, up 5.5%
EBITDA of £430m, up 6.7%
Operating profit of £309m, up 6.9%
Profit before tax of £208m, up 10.1%
Earnings per share before exceptional items of 29.3p, up 15.4%
Earnings per share after exceptional items of 39.7p up 59.4%
Dividends 12.25p, up 14.0%

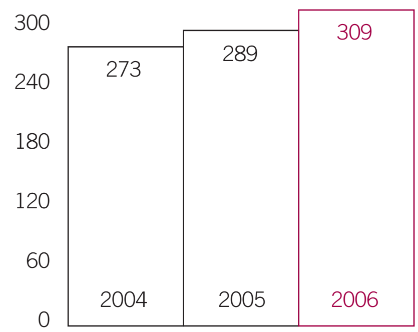
Revenue £m



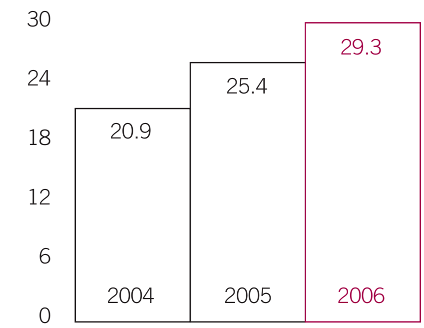
EBITDA £m



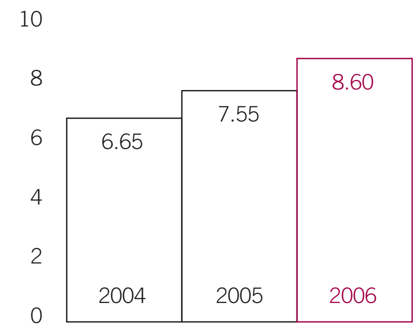
Operating profit £m



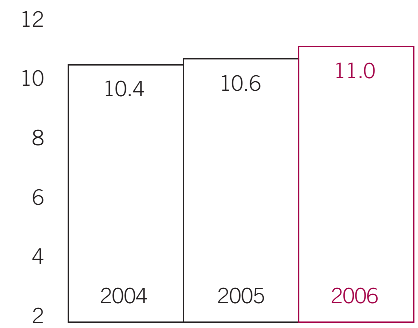
Earnings per share p



Final dividend per share p



CROCCE %



Notes:
1 EBITDA, operating profit and profit before tax are all stated before exceptional items
2 These results are prepared under IFRS, FY2005 results have been restated accordingly
3 FY2005 comprised 53 weeks, FY2005 results have therefore been restated on a 52 week basis

Chairman's statement

Roger Carr, Chairman

A year of considerable corporate activity

Mitchells & Butlers' strategy is to build sustainable value by growing our sales and profits, investing our cash flows in the estate and value creative acquisitions and to reward shareholders with progressive dividends and the return of surplus funds when appropriate. In 2006, good progress has been made on all these fronts.

In July, after careful evaluation, we successfully acquired 239 of the best pub restaurant sites in the UK for conversion to our proven brands and operating formats. In September, we refinanced the business at a reduced interest rate, increasing our securitised debt by £655m. Throughout the year, we have sold a number of smaller drinks-led pubs at attractive prices, including a package of 102 pubs which was completed in October.

Well over £500m returned to shareholders by the end of October

I am particularly pleased that, as well as investing £497m in acquiring high quality sites that provide an additional platform for future growth and investing £182m in the development of the existing estate, we have also been able to return some £560m to shareholders by way of a Special Dividend and share buybacks. In total, since demerger in 2003, we have now returned over £1.1bn to shareholders in addition to ordinary dividends.

The Board is recommending a final dividend of 8.6p taking the total dividend for the year to 12.25p, an increase of 14% on last year and consistent with our commitment to progressive growth in dividends in line with the medium term earnings prospects for the business.

The dedication and focus of our employees has been outstanding

It is a tribute to the professionalism of our employees that the corporate activity during the year has served only to increase their motivation and focus on the successful execution of our operating strategy and the delivery of sales and earnings growth. I would like to thank all of them for their hard work, tenacity and application throughout the busiest period of corporate activity the business has ever faced. Despite some uncertain trading conditions in the first quarter and against the background of the continued shift of beer sales from the on-trade to the off-trade this operational focus has delivered like-for-like sales up 4.1%.

In converting these sales gains to profit growth the business has faced an unprecedented level of energy and regulatory cost increases, some £24m in total. However expertise in managing productivity, controlling the cost base and delivering purchasing benefits has, once again, offset these increases and generated net operating margins ahead of last year and earnings per share, 15.4% ahead of last year.

Committed to the generation and delivery of value for shareholders

Earlier in the year we rejected a pre-conditional proposal from a consortium to acquire the entire equity of the Company for 550p a share. This was based on the Board's absolute belief that this proposal materially under-valued the Company and its assets. All of the actions and achievements this year have been underpinned by the Board's absolute commitment to the creation and delivery of value to shareholders. In Mitchells & Butlers' brief history, this principle has been pivotal to all our decisions. I can assure you that it will remain firmly so in the future.

Roger Carr, Chairman

Operating and financial review

Tim Clarke, Chief Executive

In what has been an active year, Mitchells & Butlers has delivered another strong trading performance with like-for-like sales growth of 4.1%. Our focus on amenity, value and service, together with tight cost control has enabled us to increase net operating margins and generate operating profit of £309m before exceptional items. Earnings per share before exceptional items of 29.3p for the year are 15.4% ahead of last year, reflecting the strong trading performance and the reduction in shares in issue following share buybacks in FY2005 and FY2006.

The market

The continued success of our sales strategy has been against a mixed background in the market with much more positive growth rates evident in food, wine, soft drinks and cider compared to beer and spirits. These trends are being driven by changing lifestyles and the actions of competitors and supermarkets.

Pub usage is becoming more popular but less regular
Going to the pub remains one of the most popular pastimes in the UK. The proportion of the adult population now regularly visiting pubs has risen to 72%[1] as wider social usage has been driven by the growth of eating-out in pubs. However, the traditional pastime of visiting the local pub several times a week purely for a drink continues to decline. This change in pub usage is a consequence of social and lifestyle changes: the increase in the female working population, the growth in the number of single households and the increasing affluence and better health of a growing retired population.

Eating-out is increasingly the reason for visiting
The eating-out market has been growing at around 4%[2] per annum in real terms over the last 20 years. Within this, pubs are capturing a disproportionate share of the growth as their informality and value for money are appealing for more frequent and less formal occasions. 44% of the adult population visit a pub to eat at least once a month[3]. Mitchells & Butlers has capitalised on this trend by repositioning its estate towards large pubs with the scale to serve high volumes of food at very attractive prices. The average price of a main meal in a Mitchells & Butlers pub is around £6 and food now accounts for some 35% of the Group's retail sales.

[1]TNS Drinks Market Survey & Alcovision June 2006
[2]Office for National Statistics
[3]Mintel Eating-out review – UK, July 2005

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

The 2005 financial year comprised 53 weeks. All comparisons between 2006 and 2005 of total sales, like-for-like sales, operating profit and earnings per share have been made on a 52 weeks basis to ensure comparability; all cash flow results include 53 weeks for 2005 and 52 weeks for 2006. All numbers (except where stated) are before exceptional items.

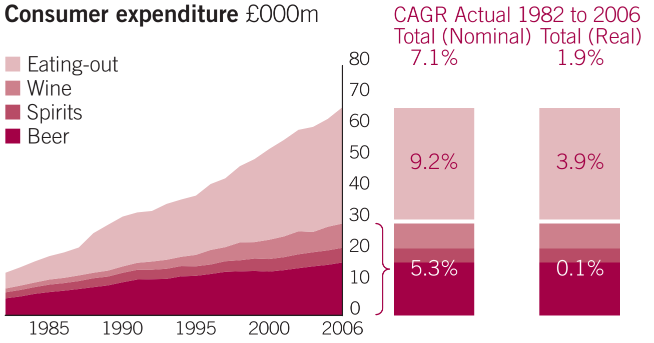
The customer appeal of pub food is expanding

Traditionally, eating-out in pubs and particularly pub restaurants has been concentrated in suburban areas amongst predominantly middle income customers. This segment of the market is continuing to show good growth, however as the quality, range and choice of pub food improves, there is also widening acceptance of pubs for casual dining in commuter belts and affluent urban areas. In response to these trends, Mitchells & Butlers is continually developing and evolving its operating formats to appeal to customer demand. In the more affluent areas, we are continuing to convert pubs to our Premium Country Dining format which, on average, achieves sales of £27k per week.

Even more significant is the growth in spend on eating-out in the more densely populated housing estates where Sizzling Pub Co. and Pub Carvery both offer extremely good value for money with steak and chips or a full carvery meal at £3.99. As a result, our Pub Carveries are now selling over 2,500 meals each per week on average, 12% ahead of last year. Similarly in the mid market income brackets, Harvester, Toby and Ember Inns have all continued to perform well.

Strong growth in wine and soft drinks

The growth in food sales is also helping to generate strong growth in drinks, especially wine. Approximately 60% of Mitchells & Butlers' sales are now food or food driven ancillary drinks. Volumes of wine sold across the industry have increased by 1%[4] during the year whereas Mitchells & Butlers achieved wine volumes 6% higher than last year. We have also gained further market share in soft drinks with volume growth of 5% in a market where overall volumes have been flat[5].



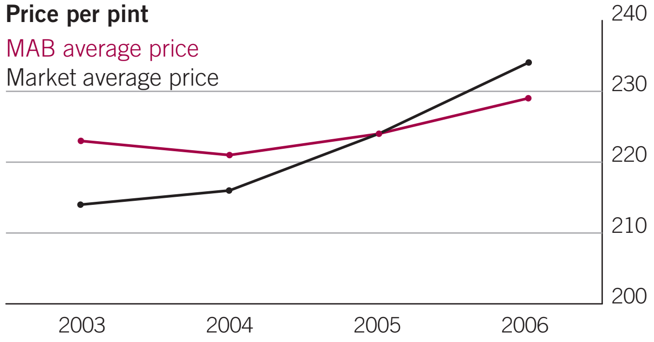
Source: Office for National Statistics. NB: Eating-out market includes soft drinks
2006 Forecast on the basis of Q1 and Q2 data

Continued decline in on-trade beer exacerbated by supermarket promotions

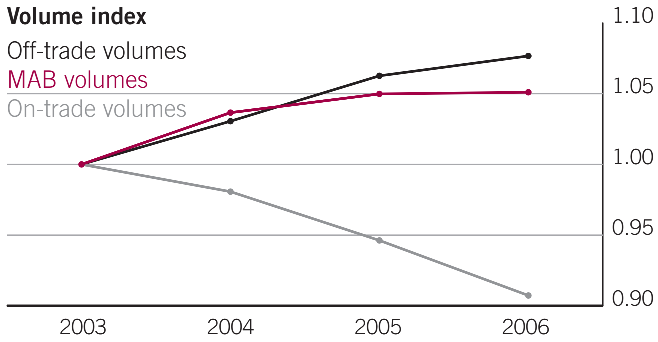
In contrast to the strong growth in food sales, the on-trade beer market continues to decline. This structural decline is being exacerbated by the widening price gap between the on-trade and supermarkets (the off-trade). This was particularly evident during the World Cup this summer when supermarkets again used beer promotions as a driver of sales of related products such as barbeques. During this period, the gap between the average price of a pint of premium lager (e.g. Stella Artois) on promotion in the supermarket and the average price in a pub reached over £1.50.

[4]AC Neilsen
[5]AC Neilsen

The average price across the on-trade continues to increase as smaller operators look to raise prices to cover their growing cost base. In contrast, Mitchells & Butlers has continued to follow a strategy of pricing restraint relative to the rest of the industry. For example, the retail price of standard lager (e.g. Carling, our largest selling beer), is around 18p lower than other managed operators and 35p below tenanted pubs. This strategy has enabled us to make further significant market share gains in an on-trade beer market where volumes are 4%[6] lower for the year as a whole and over 6%[7] down in the quarter to September.



Source: AC Neilsen. 12 months to September



Source: BBPA. 12 months to September

Mitchells & Butlers' strategy for growth

Mitchells & Butlers has consistently pursued a customer driven pub retailing strategy and the results this year are a further testament to its success. Specifically, we aim to:

1. Lead the value for money casual dining market

Same outlet like-for-like food sales increased by 7.3% during the year through our emphasis on amenity, service and value. In July, we successfully acquired 239 pub restaurant sites from Whitbread PLC (the 'Acquired Sites') which we plan to convert to our brands and formats over the next 18 months. This acquisition has accelerated the repositioning of the Mitchells & Butlers' pub estate towards food. Including these pubs, we now serve 96 million meals a year which makes us the largest on-trade caterer in the UK.

[6]British Beer & Pub Association
[7]British Beer & Pub Association

2. Generate significant drinks market share gains
Same outlet like-for-like drinks sales increased by 3.2% in the year against the background of a declining beer market. Our focus remains on extending the range of drinks we offer and improving its quality and presentation through appropriate glassware and investment in glycol cooling systems. We now stock on average six to seven draught lagers in our pubs compared to two to three, four years ago. Some of our more premium formats now offer over 10. In total, across the Company we now stock over 40 different draught products.

3. Widen the inclusive appeal of the pub through high levels of amenity and service
We are constantly developing and evolving our operating formats to ensure they remain relevant to customers, particularly those segments of the market where pub usage is growing strongly: young professionals, females, families and the over 50s. During the year we invested £182m of capital expenditure maintaining and upgrading our pubs. As we continue with this strategy, the amenity gap between our pubs and the majority of the pubs in the UK is widening significantly as investment in the industry is at its lowest point for over a decade.

4. Deliver a profitable, integrated food and drinks offer
Whilst food is increasingly the reason that customers visit a Mitchells & Butlers pub, we are able to combine food sales with higher margin drinks sales to maximise overall profitability and generate high net operating margins of 18% of sales. All of our format development ensures that an appealing and vibrant bar remains at the heart of the pub so that we cater for both eating and drinking social occasions.

5. Extract volume driven efficiencies
Our strategy of offering quality, range and value is delivering strong volume growth. Extracting maximum benefit from growing volumes across the business has been critical to our success in offsetting the additional £24m of regulatory and energy costs that we have incurred this year. At the corporate level, increased sales volumes improve our purchasing power. We have been able to maintain our gross margins again this year, offsetting the negative mix impact of the faster growth of food and wine. Economies of scale also arise at the pub level where the size of our individual businesses means that we employ on average over 20 people per pub allowing us to service additional volumes with low incremental labour cost. Our principal measure of productivity, contribution per staff hour (sales less wages divided by hours worked), increased by a further 4% this year.

6. Extend the skill base of operational excellence throughout the estate
The skills and experience of our operating teams, from bar and waiting staff to Licensed House Manager and Operations Director, provide a critical competitive advantage for us. It is through this experience that we have been able to establish industry-leading practices in areas such as staff scheduling. These have enabled us to realise significant productivity savings and maintain our pub employment cost ratio at 24% of sales, despite substantial real increases in the National Minimum Wage.

7. Proactively manage the estate to maximise value
Mitchells & Butlers' strategy is to maximise the value of each individual pub that we own by applying the trading format that is most appropriate to the local market. During the year, we completed 65 conversions and 69 growth projects to change the customer offer or increase the trading area. We are generating a pre-tax incremental return of over 20% on our expansionary investment in the estate over the last two years.

The Acquired Sites provide us with a pipeline for conversion to our brands and formats over the next 18 months. We anticipate investing £85m in these sites to uplift their performance to that of our own pub restaurants, achieving a 30% uplift in average sales per week and an uplift of over 50% in EBITDA.

We will continue to look for and evaluate opportunities to acquire individual pubs, or packages of pubs, where we believe we can add value through the application of our operating formats and the benefits of our corporate purchasing scale.

In circumstances where the value of an individual pub, or group of pubs, is higher to a third party than its trading value, we will crystallise that value through disposal. We achieved £88m of disposal proceeds in the year, taking advantage of the buoyancy in the property market, particularly for smaller freehold pubs. In October, we also disposed of a package of 102 smaller community pubs to Trust Inns Ltd for £101m as we continue to reposition the estate towards large pubs with the capacity to serve high food volumes. In taking advantage of opportunities for acquisitions and disposals in this way, we are able to recycle capital into assets with significantly higher growth prospects.

8. Grow profits and capture appreciation to benefit shareholders
Pubs are generally valued by reference to the cash flows that they generate. As a result, the success of our strategy to grow sales and profits also enhances the value of our property, of which almost 90% is now freehold or long leasehold. During the year, we instructed Colliers CRE to conduct a formal portfolio valuation of the ongoing securitised pub estate (1,704 sites), for the purposes of a refinancing. They valued that estate at £4.8bn, equivalent to £2.8m per pub, which is some 40% higher than at the time of the last valuation in 2003. In total, we estimated that the Group's property was worth in excess of £5.5bn at the end of August. In view of Mitchells & Butlers' accounting policies under IFRS, the results of these valuations have not been recognised in the financial statements of the Group.

Through additional borrowing against the higher asset values, we are able to release surplus cash to invest in the business or to return to shareholders. During the year, in addition to organic investment, we purchased the Acquired Sites and we have returned some £560m to shareholders including the Special Dividend of £1 per share in October 2006, shortly after the year end. Generating and capturing the appreciation in property values for the benefit of shareholders remains an integral part of Mitchells & Butlers' strategy.

Key Performance Indicators

Mitchells & Butlers implements and monitors its performance against its strategy principally through four key performance indicators (KPIs). The performance in 2006 and the basis of calculation are:

1. Same outlet like-for-like sales growth – Mitchells & Butlers' operational and marketing plans have delivered some of the strongest like-for-like sales growth in the industry with growth of 4.1% this year.

2. EPS growth – Mitchells & Butlers' strong trading performance, together with £177m of share repurchases in FY2005 and FY2006, has generated Earnings per Share growth of 15.4% before exceptional items this year.

3. CROCCE in excess of WACC – The difference between the post-tax Cash Return on Cash Capital Employed and Mitchells & Butlers' Weighted Average Cost of Capital is a key measure of value creation, where the cash returns generated by the business are above the overall cost of funding for the business.

   A CROCCE of 11% after tax was achieved this year, 5% points ahead of our estimated WACC of 6% reflecting the good operating performance supported by our efficient use of the balance sheet.

4. Incremental return on expansionary capital – The Company continues to pursue attractive opportunities to invest in the profitable development of the estate. Expansionary capital is allocated to individual projects to acquire new sites, or to upgrade the potential of existing pubs, based on a rigorous review of the likely returns. Our track record in this area has remained very strong during the year, with pre-tax returns of over 20% being achieved on the investments made in the last two years.

Alignment of remuneration incentives with KPIs

It is a key principle of the Company to align the interests of the Directors and other key employees with those of its shareholders. Executive remuneration (as detailed in the Remuneration report on page 29) therefore includes schemes which contain elements of remuneration linked to the above KPIs. Same outlet like-for-like growth, EPS and incremental return on expansionary capital are used as performance measures within the Short Term Deferred Incentive Plan (STDIP) and the amount by which CROCCE exceeds WACC is used within the Performance Restricted Share Plan (PRSP) scheme.

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

Mitchells & Butlers' TSR performance compared with its selected comparator group is highlighted in the Remuneration report. For the purposes of remuneration schemes, TSR is taken over the life of the scheme rather than as an annual measure. Over the last three years, the Company has delivered an increase of 152% in TSR reflecting the success that has been achieved in executing Mitchells & Butlers' strategy.

KPI definitions:

Same outlet like-for-like sales growth

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

EPS growth

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

CROCCE in excess of WACC

The post-tax Cash Return on Cash Capital Employed (CROCCE) compared to the Weighted Average Cost of Capital post-tax (WACC), where the cash return is earnings before interest, tax, depreciation and amortisation less cash tax that would be charged on operating profit without any tax shield from interest.

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

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

Incremental return on expansionary capital

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

Business review

This review expands on the strategy outlined by the Chief Executive, describing the main resources the Group has deployed to achieve its results and presenting some examples of the strategy in action in FY2006.

Leading the value for money casual dining market

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

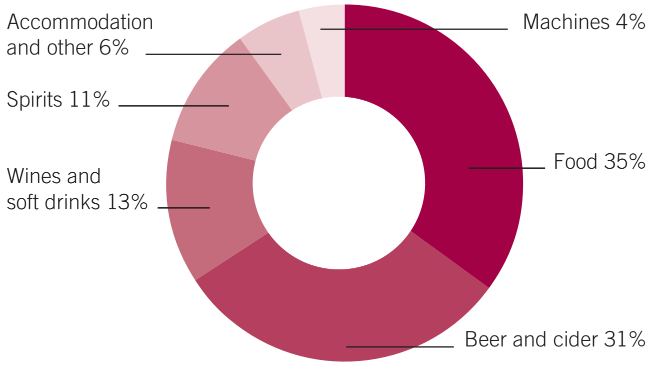
Percentage of sales by UK region (including the Acquired Sites)

Region	% of sales
South East	22%
London	18%
West Midlands	15%
North West	10%
Yorkshire and Humberside	10%
South West	6%
Scotland	5%
East Midlands	5%
Northern	4%
Wales	4%
East Anglia	1%

Mitchells & Butlers' pubs are predominantly in residential areas (75%) with the vast majority either freehold or long leasehold (almost 90%) and have high weekly sales of £17.5k (some 3 times greater than the average for the UK pub industry).

The estate over the last 10 years has therefore been fundamentally repositioned to capture the growth areas of the market. Hence, in a pub eating-out market that has grown by 31% since 2001 and is forecast to grow by 29% in the next five years, Mitchells & Butlers has grown food sales from 26% of total retail turnover in 2001 to 35% at the end of 2006. This equates to average weekly food sales per Mitchells & Butlers' pub of £6,100 or over five times the pub industry average. The conversion of the Acquired Sites to Mitchells & Butlers' proven brands and formats is expected to increase the food sales mix of the Company to around 40% over the next two years.

Retail sales mix



*Pro forma including the Acquired Sites and excluding sites disposed in FY2006 and to Trust Inns Ltd in October 2006

Critical to this growth has been our absolute focus on providing value to our customers, through the quality of product, service and amenity we offer. Consequently the average price of a main meal in a Mitchells & Butlers pub is now around £6, highlighting the value proposition, particularly considering the relative healthiness, quality of service and amenity that our pubs offer.

Generate significant drinks market share gains

As an independent retailer, Mitchells & Butlers has the flexibility to provide customers with an extensive choice of drinks at attractive prices. For example, across the Company we now stock over 40 draught products compared to only seven, five years ago.

This innovation can be seen in the highly successful Ember Cask Ale Festival which is now in its fifth year and which this year helped to grow draught ale sales in the brand by over 7% against last year's festival. It can also be seen in the All Bar One Beer Boutique which with its combination of exciting new continental lagers, staff training, and customer education has driven footfall and grown the category. We have not only extended the portfolio of beer brands that we offer, we are also now selling an improved soft drinks range including our own mixes of fresh juices, as well as a more interesting range of still and sparkling waters and Coca Cola, removing our historic sole reliance on Pepsi.

Allied with this focus on new products is an equally clear one on improving quality. New glycol systems aimed at improving the serve quality of our draught beers through the ability to consistently serve at a lower temperature are in 700 pubs. We have also introduced draught wine into 110 of our pubs using the same technology, which improves the serve quality for the customer and offers us attractive margins.

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

Profitable market share gains

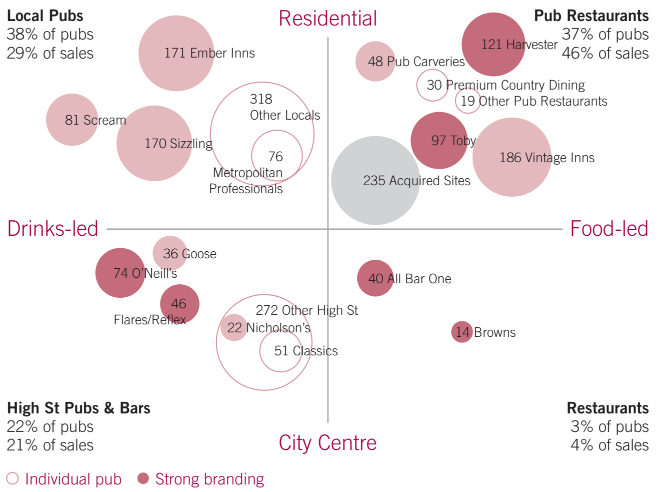
	MAB volume growth*	Estimated market volume growth**
Food	+ 6%	+ 4%
Wines and soft drinks	+ 6%	+ 1%
Spirits	- 4%	- 5%
Beer and cider	+ 1%	- 3%

*Same outlet like-for-like sales for 52 weeks vs. equivalent 52 calendar weeks of FY2005 (including pubs disposed of to Trust Inns Ltd in October 2006 but excluding Acquired Sites)
**MAB estimates based on BBPA/AC Neilsen/ONS data for the pub market

Widen the inclusive appeal of the pub through high levels of amenity and service

Mitchells & Butlers operates a spectrum of brands and formats across the four main segments of the market: Local Pubs, Pub Restaurants, High Street Pubs & Bars and City Centre Restaurants. These have developed into some of the strongest consumer brands and formats in the industry. The chart below sets out the range of brands and formats operated by Mitchells & Butlers in each segment of the market.

Spectrum of brands and operating formats



Notes: 1. Excludes Hollywood Bowl (25 outlets) and Alex (42 outlets)
2. The Group operates 4,204 rooms adjacent to its pubs and pub restaurants under the Innkeeper's Lodge and Express by Holiday Inn brands
3. Sales percentages represent UK managed sites (excluding Bowling and Hotels). Sales percentages for the Acquired Sites represent the year to May 2006. For all other sites, sales percentages represent FY2006.

In order to maintain the relevance of our brands and formats to our customers we invest in our pubs both to develop new brands and formats and evolve existing ones.

For example, the Group has developed a Pub Carvery format targeting the lower income groups and building on its long-term success with Toby Carvery in the middle income bracket. Pub Carvery offers a freshly cooked carvery meal at around £3.99 in a pleasant relaxed environment, representing better value for money than the home cooked alternative. Also targeting the mid to lower income brackets, the Group has been further evolving Sizzling Pub Co. to improve the menu offer and kitchen capability to serve higher volumes of food, building on its fame point of sizzling steaks at around £3.99. Incremental returns on these two formats are currently running at over 24%. This performance gives us the confidence to grow their distribution further next year and beyond. Overall, we are achieving incremental returns of over 20% on the £134m of expansionary capital we have invested in total this year and last year.

As eating-out in pubs continues to grow strongly, we are continually evolving our existing brands and formats to ensure they remain relevant to customers' requirements, particularly within the local market. To that end, we have segmented our estate in the Country Dining market by reference to their locations and customer demographics to enable us to match the offer tightly to the target market. Within this market, we have our Premium Country Dining offer, where the average spend per head on food is around £16 excluding VAT, to attract affluent commuters back to the pub. We now have 30 pubs operating under this format. We have also been evolving some of our Vintage Inns in areas where the demographics of the local population have moved more upmarket, to offer a more sophisticated décor and menu range thereby increasing the average spend per head on food to around £10 excluding VAT compared to around £8 for Vintage Inns as a whole.

This project is in its early days but initial results are promising with an average uplift in sales of 32% in the invested sites. In total in the year, the Group has invested £109m of maintenance capital, with the aim of refreshing and revitalising existing businesses.

Deliver a profitable, integrated food and drinks offer

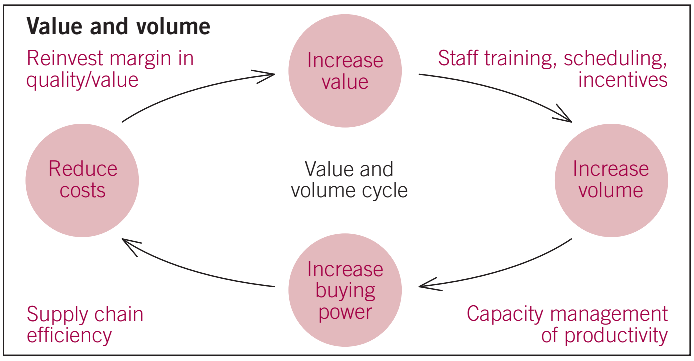
Critical to the success of our strategy to date has been our focus on leveraging the growth in food to attract customers to the pub, thereby increasing higher margin ancillary drinks sales to maximise profitability. We also aim to reinforce the link between food and drink through our marketing activity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

Our evolution of the Sizzling Pub Co. brand over the last couple of years has increased kitchen capacity and brought amenity standards up to date, resulting in a sales uplift of over 50%.

Extract volume driven efficiencies

Scale at both the pub and corporate levels is critical in ensuring the success of our volume and value strategy.

At the corporate level, the growth in our food sales over the last five years has enabled us to increase our purchasing power with suppliers, offsetting the faster growth in relatively lower margin products such as food and wine and enabling us to counter the over £80m increase in regulatory and energy costs during that period. Through reduced costs we can increase quality, pass additional value on to our customers and in turn further increase our volumes. So for example, in fresh fruit and vegetables, increasing volume ordered by 10% over the last two years with one supplier has reduced the unit cost by 6%. This focus has enabled us to hold our cost of goods flat this year with the gain on new contracts offsetting inflation, duty increases and the contractual increases in ongoing agreements.



At the pub level, through operating large scale pubs, Mitchells & Butlers is able to provide the quality of amenity and service and the range of products at good value prices that today's customers demand. The Company constantly invests in developing operating skills in the capacity management of kitchens, bars and serve times, to deliver high service standards at peak trading times. For instance, in pub restaurants, average cover turns have risen by over 7% to almost 16 times a week in the last year.

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

The 239 sites acquired in July of this year represent a future significant opportunity as we apply our productivity systems to them, convert them to our proven brands and formats, and include their sales volumes in our purchasing negotiations. In the nine weeks of our ownership in FY2006 we have already seen some margin improvement and are targeting further significant potential savings.

Extend the skill base of operational excellence throughout the estate

Mitchells & Butlers consistently seeks to recruit and retain the best employees in the industry – this is as true of the successful pub manager as it is of the Senior Executives of the Group, most of whom have worked together for over 10 years. The Company 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.

In a people orientated business, the evidence for the quality of our employees can be seen in the results achieved in the last three years. Like-for-like sales have grown by close to 5% per annum on average and at the same time we have delivered strong operating profit growth despite the regulatory and energy cost pressures. Each of our teams, from the pub operators to marketing, purchasing and property, have contributed to these results through their expertise. In the last year, despite the corporate activity that has taken place, this performance has been maintained with like-for-like sales up 4.1% and net margins slightly ahead of the previous year.

The Group conducts an annual Corporate Employee Satisfaction survey of all employees not directly employed in the pub in order to ascertain their opinions on a variety of working practices in a confidential manner. The results of this year's survey were that the overall aggregate score for employee satisfaction had improved for the third consecutive year with 94% of employees surveyed happy to recommend Mitchells & Butlers as a good place to work.

Opportunity for continuous development through training is fundamental to staff motivation and we have established company-wide programmes to ensure our people, including those who are disabled or who become disabled whilst in our employment, are able to fulfil their potential. The Company invested an average of six training days per employee in FY2006 and we have been shortlisted in the 2006 Personnel Today awards for the excellence in graduate recruitment category.

Employees are incentivised in a way that aligns their objectives to those of the Company. Pub managers, for example, in addition to a basic salary have the potential to earn up to a further 50% as bonus dependent on the sales and profit performance of their pubs compared to target. Similarly, corporate employees are incentivised through personal business objectives.

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.

Grow profits and capture asset appreciation to benefit shareholders

Our strategy has generated further strong sales and operating profit growth this year, helping to drive higher values in the Company's property assets.

Mitchells & Butlers has a unique, high quality estate of around 2,000 pubs and pub restaurants generating profitable growth. During the year, the ongoing securitised pub estate, 1,704 pubs, was valued as a portfolio by Colliers CRE at £4.8bn, or £2.8m per pub, some 40% per pub higher than the previous valuation in 2003. In total, the Directors estimated the Group's property to be worth over £5.5bn as at August 2006 including the Acquired Sites, the package of 102 smaller pubs subsequently disposed to Trust Inns Ltd for £101m and some 135 pubs outside the securitisation. In view of Mitchells & Butlers' accounting policies under IFRS, the results of these valuations have not been recognised in the financial statements of the Group.

The Group has been able to borrow against these higher asset values to invest in the business and to return more cash to shareholders. So during the year, in addition to organic investment of £182m, we purchased the Acquired Sites and will have returned some £560m to shareholders, including the Special Dividend of £1 per share paid shortly after the year end. This means that in total, since the demerger in 2003, the Group has returned over £1.1bn in cash to shareholders over and above ordinary dividends.

Current trading

Revenue in the seven weeks to 18 November 2006 has continued to grow strongly with same outlet like-for-like sales 4.5% ahead of last year, 2.9% ahead on an uninvested basis.

Like-for-like sales

7 weeks ended 18 November 2006	Same outlet*	Uninvested*
Residential	5.3%	3.3%
High Street	2.7%	1.9%
Total	4.5%	2.9%

*Excluding the 239 Acquired Sites

Our pubs and pub restaurants in residential areas are driving our growth with same outlet like-for-like sales growth of 5.3%. Our local pubs have performed particularly well reflecting the high amenity standards and value that they offer in their markets. The development of their food and associated drinks offers is ensuring that they are increasingly capturing the growth in casual dining. Our pub restaurants, which also target this market, continue to generate strong growth.

In the High Street segment, same outlet like-for-like sales are 2.7% ahead of last year. Trading in Central London remains buoyant and our town pubs outside London are also well ahead, in both cases with particularly good growth in food. The later evening market remains challenging for our circuit bars and venues with the additional competition from longer hours in local pubs.

Progress on pubs acquired from Whitbread PLC

Our conversion of the Acquired Sites is progressing well. We already have 25 pubs reopened and operating under our brands and expect to have 50 reopened by Christmas and around 100 by Easter. The ongoing conversion of the Acquired Sites and the associated closure periods will inevitably hold back their full year contribution this year, particularly in the first half. However, although they have only been open for a very short time, the initial sales uplifts on those open for more than a week are most encouraging.

During the short period prior to conversion, our aim is to maximise the profit contribution from the sites operated under franchise. In the first 16 weeks of ownership, like-for-like sales for these sites have declined at a rate slightly faster than the pre-acquisition trend. Our focus has been on the removal of unprofitable discounted sales and the implementation of our productivity processes to deliver an improvement in operating margins. Overall, progress to date has been in line with our expectations.

Preparation for smoking ban

In Scotland (which represents 4% of the pubs in our estate), our experience so far suggests that large pubs, with the capability to serve high volumes of good food at attractive prices, will benefit from a ban on smoking. However, smaller pubs, with limited food capacity and a bias towards beer sales and machine income, are likely to suffer. In the first seven weeks of the year, food sales have continued to grow strongly with like-for-like sales ahead by 7%, whilst drinks sales have declined by 2%. Overall like-for-like sales are ahead by 1.1%. Sales growth has slowed as the autumn has drawn in and we continue to believe that a full winter's trading is required before taking a definitive view on the ban's effect.

With some 80% of our estate across England and Wales having external space, we continue to develop our gardens and outside sheltered areas to minimise any future effect on drinks trade. Our Scottish experience also leads us to continue to focus on widening the social appeal of our pubs by developing their reputation for serving good food at attractive prices. This will leave us well placed to take advantage of the opportunity that the ban offers to attract new, casual dining customers, who currently do not use pubs because of tobacco smoke. Our best estimate remains unchanged, that the year one impact will be to reduce the trend rate of sales growth, with a strong acceleration thereafter.

We have already moved over 200 of our pub restaurants in England and Wales to non-smoking, with a less than 1% impact on their rate of sales growth compared to those that still allow smoking, even though customers can still go to other pubs where smoking is currently permitted.

Outlook

Overall trading conditions in the casual dining market remain strong, in line with the established long-term trends. The Mitchells & Butlers' estate and operating formats have been repositioned over the last decade to capture a leading share of that growth.

Our integrated food and drinks offers, in an informal pub environment, are key to both the customer appeal of our formats and our high operating margins. While the traditional on-trade beer market continues to decline, the range and value of our drinks offers alongside high quality casual dining is enabling us to generate significant market share gains.

Consumer demand has clearly been better than expectations during 2006, although it is difficult to be sure if it will continue at this rate, given the levels of household debt. We continue to expect regulatory and energy cost increases of around £14m in the current year.

The potential application of Real Estate Investment Trusts (REITs) as tax efficient structures for property assets from January 2007 is being closely examined. Capturing freehold property appreciation is an integral part of Mitchells & Butlers' strategy due to the direct relationship between the operating cash flows of a pub and its property value. This is currently ensured through common ownership of the pub asset and the control of its operation. The Board is investigating the challenges of realising the potential tax advantages of a REIT, whilst preserving sufficient incentive for the operating company. It is important that it should continue to deliver and gain from the long-term capital appreciation arising from the increasing cash flows generated by its operating and investment strategy.

In summary, Mitchells & Butlers has strengthened its leadership position in the rapidly growing pub food market and continues to gain significant drinks market share. With further improvements in productivity and cost efficiency, together with high returns from investment in the estate and the conversion of the Acquired Sites, the Board remains confident in the future growth prospects of the Company.

Karim Naffah, Finance Director

Mitchells & Butlers has continued to perform well this year, with strong revenue growth and improving margins. Earnings per share grew by 15.4% in the year, underpinning the proposed increase of 14% in the annual dividend.

Strong operating performance

Our financial performance reflects the quality of the licensed properties we have developed and our operational focus on maximising the trading potential of each pub, through the application and evolution of industry-leading brands and formats.

Like-for-like sales during the year grew by 4.1% and gross margins were broadly maintained, despite the relatively faster growth of food and wine. With continued productivity improvements and efficiency gains, net margins rose from 17.7% to 18% this year, surmounting an unprecedented challenge of £24m from additional regulatory and energy costs, equivalent to some 1.4% points of margin.

Investing for high returns

We invested £182m in the existing estate, including £73m of expansionary capital on development projects, with incremental pre-tax returns over the last two years of over 20%.

We also purchased, for £497m, 239 pub restaurants in July. Our extensive due diligence and rigorous site appraisals prior to acquisition underpinned our confidence in the significant opportunity to increase the sales and profits of these sites by converting them to Mitchells & Butlers' brands and operating formats. We anticipate further investment of around £85m to complete the conversions over the next 18 months, generating high incremental returns and providing the business with an additional source of profitable growth and value creation.

Value creative disposals

In addition to investing in the future of the business, we regularly challenge the ongoing trading value of our assets against the option of disposal, particularly as alternative use and investment demand for individual pubs have been at substantially higher values than before.

During the year, we raised £88m of cash from disposals, including £53m from 21 smaller freehold properties in London sold at a multiple of 22 times the EBITDA they generated in the prior 12 months. Shortly after the year end, we completed the disposal of 102 smaller, community pubs to Trust Inns Ltd, a private company, for £101m.

Efficient financing structure

Based on an independent valuation of the ongoing securitised estate (1,704 pubs), Mitchells & Butlers' total property assets were estimated in August to be worth over £5.5bn. The substantial appreciation of our asset base over the past three years demonstrates the value that has been added to our high quality estate through the successful implementation of our operational strategy.

We identified a year ago that, as a result of its strong trading performance since 2003 and the expected consequent increase in asset values, the business had created the capacity to take on more debt. We stated our intention to refinance the balance sheet during the year, either to fund a major acquisition or to return additional cash to shareholders. It is pleasing that the Company has, in practice, been able to accommodate both.

New bonds totalling £1.1bn were issued in September on highly attractive terms, with an average cash interest rate fixed through hedging arrangements, at 5.4% pre-tax. Of this total, £450m was used to refinance existing notes and the incremental debt of £655m has enabled the Company to pay the Special Dividend of £1 per share in October to shareholders, in addition to having financed the purchase of the Acquired Sites and repurchased £76m of shares during the year. We also made an additional contribution of £20m to the pension schemes in the year and have committed a further £60m to be paid over the next two years.

Going forward, our focus remains on driving profitable sales growth in our base estate and through the important conversion of the Acquired Sites, generating strong cash flow and future asset appreciation for the benefit of shareholders.

Karim Naffah, Finance Director

Financial review

Total revenue for the year was £1,720m up 5.5% on last year. Strong like-for-like sales growth continued in our business in both Residential and High Street areas, reflecting further significant market share gains.

Like-for-like sales

	Same outlet	Uninvested
Residential	5.1%	3.1%
High Street	2.3%	1.8%
Total	4.1%	2.6%

With the success of our ongoing sales and marketing activities, same outlet food and drink sales were up 7.3% and 3.2% respectively with average retail prices up 2%, as a consequence of price increases on some standard products, the introduction of more premium products and expansion of some of our more upmarket pub offers such as Premium Country Dining.

The overall cost of goods was held flat on last year reflecting the purchasing benefit of our volume strategy. Reductions on the average price of contracts renegotiated this year offset other contractual increases, duty and inflation. Overall gross margins were in line with last year despite the further shift in sales mix to lower margin categories of food and wine.

Good profit conversion of incremental sales enabled us to offset £24m of additional regulatory and energy costs. In particular further employee productivity benefits were achieved allowing us to maintain our pub employment cost ratio at 24% of sales despite the increase in the National Minimum Wage.

As a result the net retail operating margin was 0.3% points ahead of last year.

Excluding the 239 Acquired Sites, we invested £182m in the year. £109m was invested to maintain the high levels of amenity in the pubs and in the continuing development and evolution of our brands and formats. The balance of £73m was spent on expansionary projects. During the year six new pubs opened, two with adjoining lodges and 65 existing pubs were converted to one of our brands or formats to uplift their sales and profits. A further two Innkeeper's Lodges were developed on land adjacent to existing pubs. Overall, we are achieving an incremental, pre-tax return of over 20% on the expansionary projects of the last two years.

Including the Acquired Sites and disposal proceeds of £88m, net capital investment during the year was £583m.

As a result of our progress, operating profit before exceptional items was £309m, up 6.9% on last year.

Pubs & Bars

	FY2006	
Revenue	£958m	+2.0%
Operating profit*	£179m	+2.3%
Same outlet like-for-like sales		+3.5%
Uninvested like-for-like sales		+2.4%

*Before exceptional items

Revenue in the Pubs & Bars division was up 2.0%. At the end of the period there were 1,193 managed pubs in the division following the disposal of 55 pubs, 12 transfers to business franchise and seven pubs transferred to the Restaurants division. There were on average 1,238 pubs trading during the year.

Good growth in the division's drinks sales, as a result of the widening gap between our amenity, product range and value for money and that of the competition, has led to market share gains, with a particularly strong performance from those businesses in residential areas. This increase is against a background of ongoing decline in the on-trade beer market.

Food sales were up 4.5%, driven by growth in our residential pubs, notably Sizzling Pub Co. and Metropolitan Professionals, as well as by our Town Pubs and the central London estate.

Machines sales continued to decline reflecting the delay in the review of stakes and prizes which was concluded shortly before the year end, raising the maximum stake to 50p and the maximum prize to £35 with effect from 27 October 2006.

Conditions for the 6% of our business in the later-night bars and venues segment remain challenging due to the additional competition from longer opening hours following licensing deregulation.

A total of 52 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co., Ember Inns and the Metropolitan Professionals format.

As a result of tight cost control, particularly on labour, Pubs & Bars profits were up 2.3% in the year. Despite continuing pressure on employment and energy costs, net margin was broadly maintained at 18.7%.

Restaurants

	FY2006	
Revenue	£762m	+11.4%
Operating profit*	£130m	+15.0%
Same outlet like-for-like sales**		+5.0%
Uninvested like-for-like sales**		+2.9%

*Before exceptional items

**Excluding Acquired Sites

Total sales in the Restaurants division were up 11.4%. At the end of the period there were 832 managed pubs in the division following the addition of the Acquired Sites, six new individual pubs, the disposal of six pubs, one transfer to business franchise and seven pubs transferred from Pubs & Bars. Excluding the Acquired Sites, there were on average 585 pubs trading during the year and total revenue grew by 6.4%, with drinks sales up 3.9% and food up 8.9%. Same outlet like-for-like sales grew by 5.0%.

The division produced strong results during the year, driven by the ongoing evolution of our brands and formats, new menu development, extended and improved drinks ranges and better drinks presentation and quality. 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. Our pub restaurants now serve close to 2,000 meals each on average per week, turning their covers 16 times. As anticipated, sales in the division were adversely affected during the World Cup in June. Afterwards, however, trading rebounded strongly with like-for-like sales in the last 12 weeks of the year up 6.4%.

Revenue for the Acquired Sites for the nine weeks of ownership included in the period was £34m, and operating profit was £6m.

The Restaurants division's focus on high levels of volume growth and maximising the drop-through to profit of incremental sales resulted in operating profit before exceptional items of £130m, up 15% on last year, including the contribution from the Acquired Sites. Operating margin was up 0.6 percentage points to 17.1%. This was achieved through efficiency gains and substantial improvements in employee productivity driven by a continual focus on the training, optimal deployment and service quality delivered by our staff, so as to both grow sales volumes and maximise the profitability of the incremental volume sold.

Standard Commercial Property Developments Limited (SCPD)

SCPD aims to maximise the value of the Group's surplus properties which are suitable for development. Due to the nature of this activity and the small number of developments ongoing at any one time, revenue and profit can fluctuate from period to period. SCPD did not contribute any revenue or profit to the Group results, compared to £8m and £1m respectively last year.

Accounting policies

With effect from 2 October 2005, Mitchells & Butlers plc has been required to prepare its group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use by the European Union (EU). These are the Group's first Preliminary Financial Statements to be prepared on this basis. Details of the accounting policies adopted are set out in note 1 to the financial statements and an explanation of the transition to IFRS is included in note 34. A reconciliation of UK GAAP to IFRS for the 28 weeks ended 9 April 2005 and 53 weeks ended 1 October 2005 were made publicly available on 7 December 2005 and can be accessed within the investors section of the Group's website at www.mbplc.com/IFRS

All comparatives have been restated to reflect IFRS

Exceptional items

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

Exceptional profits of £23m (£20m after tax) arose during the year in connection with the sale of individual pubs. Costs of £7m (£6m after tax) were incurred in defending the potential offer for the Group from a consortium led by R20 and in the refinancing of some of the Group's securitised bonds. In addition, an exceptional interest cost of £4m (£3m after tax) was recognised reflecting the write off of the original issue costs on the refinanced bonds. An exceptional tax credit of £40m arose during the year following the settlement of pre demerger tax issues with the HMR&C. Of this amount, £32m has been released from prior year provisions and £8m is expected to be recovered in cash in FY2007.

Finance costs and revenue

Finance costs were £118m before exceptional items during the year, £4m higher than last year as a result of additional borrowing for part of the year following the acquisition of the Acquired Sites, partially offset by bond repayments during the year.

Finance revenue of £9m was achieved on the Group's cash balances, £2m lower than last year reflecting the lower average cash balances following the share buybacks this year and last year.

Net finance income from pensions was £8m, £5m higher than last year due to the expected return on the increased level of assets in the scheme compared to the charge for the liabilities.

The Group's blended net interest rate for the year was a little under 6% including the impact of the net finance income from pensions.

Taxation

The tax charge for the year was £64m before exceptional items. This is an effective rate of 31% of profit before tax, consistent with last year.

Earnings per share

Earnings per share were 29.3p before exceptional items, 15.4% ahead of last year. In addition to the growth in operating profit, earnings per share have benefited from the share buyback programme during the current and previous financial years.

Dividends and returns to shareholders

The Board is recommending a final dividend for 2006 of 8.6p per share. Together with the interim dividend of 3.65p paid on 30 June 2006, this gives a total dividend for the year of 12.25p, up 14% on last year. This increase reflects our commitment to a progressive policy for dividend growth consistent with the medium term growth prospects for the Company. Subject to approval at the AGM, on 1 February 2007, the final dividend will be paid on 5 February 2007 to shareholders on the register on 8 December 2006.

During the year, the Company repurchased 18m shares for a total consideration of £76m. Of these shares, 13.5m were cancelled and the balance was placed in employee share trusts.

Cash flow and net debt

The Group's operations are highly cash generative. Cash flow from operations was £430m before exceptional items but after additional pension contributions of £20m. Net capital expenditure was £583m comprising £489m of the acquisition cost of the Acquired Sites, £73m of expansionary capital investment, £109m of maintenance capital, less disposal proceeds of £88m.

Net interest paid of £107m was slightly ahead of last year reflecting increased debt in the business for part of the year following the acquisition of the Acquired Sites. Tax paid was £48m, broadly in line with last year. £56m was paid in respect of the final dividend for FY2005 and the interim dividend for FY2006. In addition, shares totalling £76m were repurchased and £12m was received from the exercise of share options. As a result there was a net cash outflow of £428m before exceptional items (£14m in total), compared to a cash inflow of £14m last year.

Net debt at the year end was £2,067m. This was before the payment of a special dividend to shareholders of £1 per share (£486m in total), the disposal of a package of 102 pubs for £101m and the payment of the additional pension contribution of £40m for FY2007, all of which occurred shortly after the year end.

Share price and market capitalisation

At 30 September 2006 the share price was 589.5p compared with 365p at the start of the financial year, an increase of 62%. The Company is a member of the FTSE 250 index with a market capitalisation of approximately £2.9bn at the year end.

Treasury management

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

At 30 September 2006, the Group's net debt of £2,067m consisted of the securitised debt of £2,413m and a small amount of derivatives hedging balance sheet debt, other loan notes and finance lease obligations together totalling (£29m), offset by cash and investments of £375m.

The Group has a committed medium term facility of £300m and a further liquidity facility of £295m available.

Pensions

On an IAS 19 basis, the Group's pensions schemes showed a deficit of £99m, (£67m after tax) at 30 September 2006 compared with £151m (£101m after tax) at 1 October 2005. The reduction in the deficit reflects the benefit of £20m of additional pension contributions paid in the year and improved investment returns, partially offset by an assumption of higher future inflation.

Following the completion of the refinancing and return of funds, the Company has agreed with the Pensions Trustees that further contributions of £30m in FY2007 and £20m in FY2008 will be made, in addition to the £10m already committed for FY2007. A full actuarial valuation of the pension schemes is planned to take place with the normal triennial cycle in 2007.

Shareholders' funds

Shareholders' funds were £1,285m at the end of the year compared with £1,183m at the start of the year. A full reconciliation of the movement in equity is set out in note 25 to the financial statements.

Risks and uncertainties

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

There are a number of potential risks and uncertainties which could have a material impact on Mitchells & Butlers' long-term performance and achievement of its strategy. These risks and uncertainties arise as a result of operational, regulatory, financial or market driven factors. Mitchells & Butlers takes a proactive approach to managing risk with a dedicated Risk and Compliance team who report through the HR and Legal Director to the Executive Committee and the Board. Although Mitchells & Butlers has been successful in mitigating these risks in the past, there is no guarantee that it can continue to do so.

Operational Factors

Brands, formats and offerings
Mitchells & Butlers' pubs and pub restaurants compete for consumers with a wide variety of other branded and non-branded pubs and restaurants as well as off-licences, supermarkets and takeaways. The large supermarket groups, in particular, are often selling alcohol and especially canned beer, at greatly discounted prices as an element of their marketing strategy. In 1980, 88% of beer in the UK was sold through pubs, clubs and restaurants (the 'on-trade'). This percentage has been declining steadily, such that by 2006, 60% of beer was sold through the on-trade with the supermarkets and off-licence share (the 'off-trade') having increased to 40%.

Changes in consumer tastes in both food and drink, for example the heightened awareness of healthy eating and demographic trends over time may affect the appeal of Mitchells & Butlers' pubs and pub restaurants to consumers, especially if Mitchells & Butlers does not anticipate, identify and respond by evolving its brands, formats and offerings adequately and sufficiently promptly to reflect changes in consumer requirements and preferences, particularly the growth in the eating-out market.

Mitchells & Butlers has a Sales and Marketing Executive for both the Pubs & Bars and Restaurants divisions, chaired by the Divisional Managing Director, that actively monitor consumer trends and the relevance of Mitchells & Butlers' brands, formats and offerings to them. New operating formats and the evolution of existing offers are trialled every year as part of this programme. A recent example has been the development of a Premium Country Dining offer, which targets more affluent consumers in commuter belts. 13 further conversions have been completed this year, taking the format to a total of 30 pubs generating an incremental pre-tax return of 27%.

Supplier dynamics
Mitchells & Butlers' relative size in the pub and pub restaurant sector has allowed it to renegotiate supplier contracts successfully in the past year and its experienced purchasing team has investigated alternative supply arrangements including the introduction of own label wines. In addition, as the Group's tied arrangements have reduced, Mitchells & Butlers has taken advantage of the increasing freedom to improve the choice available to customers at favourable terms.

Mitchells & Butlers is contractually bound to use certain suppliers. As part of its acquisition of the 550 former Allied Domecq sites in 1999, Mitchells & Butlers is required to purchase a fixed minimum volume of Carlsberg-Tetley products until 12 December 2007 (which in 2006, represented 8% (by value) of Mitchells & Butlers' alcoholic drink purchases). Mitchells & Butlers is also tied for approximately half of its soft drinks volume to Britvic plc until February 2008. If Mitchells & Butlers is unable to satisfy its minimum purchase volume obligations to a material extent under the Carlsberg-Tetley and Britvic agreements, it is obliged to pay liquidated damages.

Mitchells & Butlers is a large commercial user of gas and electricity and is therefore subject to fluctuations in utility costs (for example, both gas and electricity costs have risen sharply during FY2006). In order to reduce exposure to short-term fluctuations in energy prices, Mitchells & Butlers has a rolling programme of forward purchases for three, six, nine and 12 months in the future. An energy awareness team has been established to review energy usage and is working with the business to continue to find ways to promote further efficiencies in energy consumption.

Market Driven Factors

Consumer expenditure
Mitchells & Butlers' revenues are linked to the economic climate in the United Kingdom and to a much lesser extent in Germany. Changes in consumer expenditure may arise as a result of the general economic situation or more localised specific factors such as decreased activity in the financial markets or from reduced tourist visits as a result of ongoing terrorist activity throughout the world and in London. Consumer expenditure in pubs may also vary through consumer perceptions and public attitudes to social factors such as underage drinking, adverse health consequences associated with the misuse of alcohol, including alcoholism or to localised national or international scares as a result of food contamination.

Mitchells & Butlers' over 2,000 individual businesses and its range of brands and formats targeting different income groups mitigate this risk. The range of brands and formats also provides the flexibility to respond to changes in consumer behaviour through either the development of the offer or the substitution of an alternative operating format or brand at a particular location.

Seasonality
Customer visits to Mitchells & Butlers' pubs and pub restaurants are generally higher during holiday periods, such as Christmas and New Year, and over bank holidays. Frequenting of pubs and pub restaurants is slightly lower during the winter months than in the summer. Visits to pubs and pub-restaurants are also affected by the weather, with warm sunny weather being particularly advantageous for pubs and pub restaurants with gardens. Mitchells & Butlers' marketing strategies are set to address the impact of seasonality, wherever possible, to capture demand in busy periods and to encourage customers to visit in quieter periods.

Regulatory Factors

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

Smoking ban
A full ban on smoking in pubs came into force in Scotland on 26 March 2006. Approximately 4% of Mitchells & Butlers pubs are in Scotland with a greater proportion of large town centre pubs and fewer local residential pubs than the Mitchells & Butlers' pub estate in England and Wales. Trading in Scotland in the period immediately after the ban was strong as new users sampled the smoke-free atmosphere. Since then, sales have continued to grow but at a slower rate. Our experience so far suggests that large pubs, with the capability to serve high volumes of good food at attractive prices, will benefit from a ban on smoking. However, smaller pubs, with limited food capacity and a bias towards beer sales and machine income, are likely to suffer.

Although the profile of the Mitchells & Butlers' estate in Scotland is different to England and Wales, our experience there has generated some good learning which can be applied to the ban on smoking in Wales which will come into force on 2 April 2007 and the ban in England, for which a date has yet to be confirmed, but which is widely anticipated to be introduced in the summer of 2007.

National Minimum Wage
The Government has increased the minimum wage materially above the rate of inflation and actual growth in labour productivity over the last four years. It currently stands at £5.35 per hour having been increased by 30p for adults in October 2006. Following this increase, the Low Pay Commission has recommended that any further increase in the National Minimum Wage should remain in line with general wage inflation, although to date this recommendation has not been endorsed by the Government. Mitchells & Butlers has successfully mitigated increases in the National Minimum Wage through productivity improvements. These have allowed it to maintain the ratio of employment costs at 24% of sales.

Licensing
New licensing laws became fully effective in November 2005. Licensing matters were taken away from the Magistrates Courts and transferred to local authorities and a new requirement was introduced for operators of licensed premises to hold both a premises licence and a personal licence. Greater flexibility of opening hours was introduced which allows pub operators to apply to the local authority for permission to change opening hours, subject to objections from local residents, the police and other relevant agencies.

These groups also now have a right to ask the local authority for the premises licence to be reviewed at any time where they believe that any of the Government's licensing objectives are being compromised. As a result of such review, the local authority has the power to attach further conditions to the licence, reduce trading hours, call for a change in the pub management or ultimately suspend or revoke the licence. The Government is also introducing further legislation in early 2007 that will, inter alia, make the penalties for non-observance of certain aspects of licensing law more severe (e.g. if a premises is caught serving underage drinkers three times in three months, it will be fined and may have its premises licence suspended).

Mitchells & Butlers has been successful in the vast majority of initial applications to extend previous opening hours (typically for an additional hour or two later in the week and at the weekend). The Company also invests heavily in the training of its managers and staff to ensure compliance with licensing laws and to operate its pubs in a responsible manner.

Changes in taxation
Mitchells & Butlers' activities are affected by a number of tax-related matters. These include duty on alcoholic beverages, property rates, VAT, other business taxes and the availability of duty harmonisation to travellers between EU countries.

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

- Active participation with industry organisations, such as the British Beer & Pub Association and the British Hospitality Association, ensuring that effective lobbying is carried out;

- The operation of a Risk Management Forum to ensure that the impact of any new legislation is considered and that action plans are put in place to address any required changes in advance of any implementation date;

- Continual consideration of operating procedures to ensure any cost increases arising from such changes can be mitigated through productivity increases.

Financial Factors

Pension funding
Mitchells & Butlers participates in defined benefit pension schemes which give rise to various funding risks. The main risk is the variability of the amount of contributions required to be paid to the schemes by Mitchells & Butlers in order to account for past service benefit deficits and future service benefit accruals. These in turn are impacted at any point in time by changes in life expectancy assumptions, the performance of the stock market and bond yields.

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

Mitchells & Butlers' pension risks have been mitigated by the closure of the defined benefit schemes to new entrants during 2002. As an alternative, a competitive defined contribution pension scheme is now available to eligible new employees. Mitchells & Butlers also maintains a close dialogue with the pensions schemes' Trustees and two of the Trustees are appointed by the Company. As a result of the funding deficits in the schemes, the Company has made additional contributions of £116.5m over and above the regular service contributions since listing in 2003 in order to proactively reduce the deficit. The Company has also committed to make further additional contributions of £40m during FY2007 and £20m during FY2008. A full actuarial valuation of the schemes will be conducted during FY2007.

Corporate social responsibility

Mitchells & Butlers operates in a highly regulated industry and recognises that it has an inherent duty under its licences to ensure the responsible operation of its premises for guests, employees and the wider community. 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.

Corporate governance

The Board is responsible for the Company's internal control and risk management system. The Corporate governance report on page 24 gives details of how this responsibility is discharged.

Our Executive Committee has adopted a Code of Ethics to promote honest and ethical conduct throughout our business. The code includes:

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

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

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

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

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

A Mitchells & Butlers Risk Management and Disclosure Forum exists to monitor the Company's activities and to ensure that a consistent and proactive approach to managing risk occurs throughout the Company, including those of a social, ethical or environmental nature. The Forum meets on a quarterly basis and has been enhanced this year to include further Executive Committee members and a wider coverage of the Company's business areas.

The Board also receives regular updates on significant legislative change or development in corporate governance best practice. The Company's social, environmental and ethical disclosures are reviewed for accuracy through a combination of detailed verification by members of management responsible for the individual areas of corporate social responsibility and high level 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 2006 on www.mbplc.com/csrreview

Alcohol and social responsibility

Mitchells & Butlers has had a comprehensive policy for the responsible sale of alcohol since 2000. Our Alcohol and Social Responsibility Policy includes clear guidelines on the responsible operation of our pubs, the sale and promotion of alcohol and our under 18s policy. The policy is supported by employee training and development programmes. The introduction of the policy led the industry. We relaunched the Alcohol and Social Responsibility Policy in May 2006 to include tighter guidelines on pricing and promotions.

This year more than 3,000 members of our retail staff passed the National Certificate in Personal Licence Holders, accredited by the British Institute of Innkeeping, and a requirement for the granting of a personal licence. This qualification underpins their commitment to responsible retailing.

Challenge 21 policy

The Challenge 21 policy is an initiative launched by Mitchells & Butlers to support our staff in identifying underage customers. It is not an over 21s only entrance policy, but rather a requirement to ask for ID, if a customer appears to be under 21, so as to prove that he or she is at least 18 years of age. This policy is now applied throughout the estate.

Challenge 21 refresher training for all managers and staff is taking place in the autumn of 2006, in order to reduce the incidence of underage purchase.

During the last year we have moved to accept as proof of age ID cards within the 'PASS' scheme. The scheme accredits bona fide card issuers, with part of the accreditation being the prevention of forgery. Our employees are trained to recognise the 'PASS' logo, and to accept only such cards, or a passport or photo driving licence as proof of age.

Conflict management

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

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

Responsible promotions policy
Mitchells & Butlers is a member of the British Beer & Pub Association and played a central role in the formation of that organisation's code governing promotional activity, which in turn influenced the creation of the Social Responsibility Standards document signed by all of the relevant trade associations and launched in conjunction with the Home Office earlier this year.

The Company operates a responsible pricing and promotions policy, the guiding principles of which are:

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

Alcohol awareness
Our brand-specific training highlights Alcohol By Volume information as part of all new product introductions. All managers and retail employees complete this training as part of the induction process and refresher training sessions are held every six months.

Mitchells & Butlers is an associate member of the Drinkaware Trust, an independent charitable trust aimed at changing the UK's drinking culture and tackling alcohol-related harms. Information on units of alcohol is provided on the drinks menus in a number of our brands and formats and further information about the Drinkaware Trust website is made available on other marketing material.

Increasing range of alternatives to alcohol
Over the last 12 months we have continued to increase our range of non-alcoholic drinks and to provide tap water to guests at no cost.

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

Mitchells & Butlers applied for an average of just over one additional hour per day per pub. In making applications we sought to balance the opportunity to offer our guests more flexible opening times with respect for local communities. In the vast majority of cases our applications were successful. We applied for no 24 hour licences.

Predictions of a rise in alcohol-related disorder as a result of the Act proved largely unfounded. The on-trade has seen little or no increase in consumption and in general guests have taken advantage of more flexible opening hours in a relaxed fashion.

The Company's experience has been one of successful implementation, much of this due to extensive training. We have seen a marginal increase in sales overall, but with less pressure at closing time and few instances of disorder.

Partnerships with police and local communities
We encourage our licensed house managers to become active members of the local Pubwatch Scheme. Examples of partnerships with local communities include:

- Support for Business Improvement Districts. We support a dozen such initiatives and are especially active in that for Broad Street, Birmingham.
- Participation in local city council and police initiatives such as Best Bar None Awards. For example:

  – Hull's Best Bar None awards scheme, introduced by Humberside police and Hull City Council's 'Citysafe' initiative, offers accreditation for well run pubs with staff well trained in regard to security, drug awareness, responsible drinking and the control of anti-social behaviour. Mitchells & Butlers' pub, The Mainbrace, won the overall award in the 'Best Pub' category, out of around 30 entrants.

  – A Scream pub, The Phoenix, won 'Best Club' in the Coventry Best Bar None Awards. Run by Coventry City Council, West Midlands Police and partners, the scheme recognises the high standard of safety management at city centre venues. Specially trained police and City Council officers examined each venue, checking on issues such as underage drinking, noise nuisance, fire safety training for staff and the use of CCTV.

Smoking
In 2004 we started a programme of reducing the floor space in which smoking was allowed in all of our pubs. By the end of 2005 we had eliminated smoking at the bar across the estate, thereby reducing the exposure of staff to environmental tobacco smoke.

In October 2005 the Government presented the Health Bill, containing proposals for reducing smoking in the workplace. The Bill introduced the notion of banning smoking in pubs serving food, but allowing smoking in other pubs and all membership clubs. The Company viewed the proposal as illogical and inequitable, and participated actively in a campaign to bring about a total ban in all pubs and clubs. The campaign was successful and as a result, a full ban will come into effect in Wales in April 2007, and later that summer in England.

Meanwhile, ahead of the ban, we have moved to a no smoking policy in a growing number of pubs. By September, around 185 of our pub restaurants were smoke-free in England and Wales.

A full ban on smoking in pubs came into effect in Scotland in March 2006. With careful planning and preparation, the Company managed the change successfully. The experience gained is proving helpful in our detailed planning for the new regime in England and Wales.

We are confident that a smoke-free environment will be beneficial to our staff and to our customers and will attract even more potential customers.

Good food and healthy eating
We aim to provide a broad choice of menu items in our establishments so that guests seeking healthier options have plenty of choice.

We have taken advice from the Food Standards Agency (FSA) to improve the nutritional content of our menus, with particular emphasis on Harvester and children's menus. We committed to specific salt reduction targets, and are pleased to have met them for two successive years. New FSA targets regarding salt content in sausages and burgers targeted at children have been adopted.

The salt and fat content of items on the menu at Hollywood Bowl have been reduced, and Harvester has recently launched its own website, which includes nutritional data on all menu items and this is also available in each restaurant on request.

Environment

We take our environmental responsibilities seriously, and have a policy of seeking continuous improvement, with particular focus on recycling and energy usage.

We have established a programme for collecting and recycling glass and cardboard in our businesses. Following a successful trial, the initiative has been rolled out and by September 2006, there were over 500 pubs participating in the glass recycling programme and over 250 recycling cardboard.

We continue to make progress in energy saving. A reduction of 2% has been achieved, despite a 3% increase in demand driven by volume growth.

Trials of various energy saving measures are to be carried out at two new-build Toby Carveries in 2007.

Our efforts in this area were recognised in December 2005 when we were awarded the Energy Efficiency Accreditation by the Energy Institute and the Carbon Trust.

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

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

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

Health and safety

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

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

The Board is responsible for ensuring that sufficient resources are available to implement 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.

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

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

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

Fire safety policy has been reviewed during 2006 to ensure compliance with the Regulatory Reform (Fire Safety) Order that came into effect on 1 October 2006.

The average audit scores for health and safety, food safety, and fire safety all improved in the year to September 2006.

Employees

Please refer to section on operational excellence in the OFR on page 10.

Gaming

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

Community

Each of our businesses has an important role to play in its local community, and we strive to ensure that our impact is positive. Every year, our pub managers and staff raise significant funds for charitable causes and to celebrate their contribution, we introduced the Heart of the Community Awards in 2004. These recognise the efforts of our employees in helping to forge good relations with the communities in which we participate. The winning pubs receive £25,000 collectively to donate to good causes of their choice.

We promote an Employee Community Award Scheme, enabling employees who support a charity through fundraising or voluntary work to apply for a Company donation. Last year a total of £40,000 was donated to charities through this scheme.

The Company makes donations in kind, such as offering its facilities for use pro bono, or by giving free meals in Company premises. Some of our leading brands also support a charity of their choice. For example, Ember Inns and their guests have raised around £6,700 for breast cancer charities during 2006.

Alongside local initiatives, we also work with selected charities at a national level. The Company is now into its second year of supporting Barnardo's. For the second year running the Company made a donation of £50,000. Additionally, our employees helped to raise £22,000 to support three regional Barnardo's projects.

Mitchells & Butlers is an active participant in Fair Cities Birmingham, a programme that aims to enhance the employment opportunities of people from disadvantaged communities. Trainees who successfully complete a four week training course at the Birmingham College of Food are guaranteed an interview for work in one of our local pubs. Ten people have already been placed in work.

As a company with headquarters in Birmingham, we have a history of supporting the cultural and economic life of the city. We are proud to have supported the City of Birmingham Symphony Orchestra for 26 years. The partnership was nominated in the Arts & Business Sustainability Awards 2005 in recognition of its longevity. The sponsorship includes the 'CBSO on the Road' programme, a series of community concerts for local charities, schools and community groups across the Midlands.

We are in our fifth year as corporate patron of the Birmingham Repertory Company, and have just announced a new programme of sponsorship of the Birmingham Royal Ballet. In total, the Company made over £200,000 (2005 £143,170) in corporate donations in 2006.

Our role as neighbours

Our pubs play an important role in the life of the local community and the Company is committed to ensuring that our businesses fulfil this role successfully, remaining on good terms with those living nearby. We encourage our managers to be active members of the community, attending Residents' Associations' meetings where possible, and dealing directly with neighbours to resolve any issues quickly and amicably.

It is a Company policy that all of our door staff work for approved door contractors and this year we ran a national conference, coaching door staff in all aspects of their responsibilities, including the minimising of disruption through noise or anti-social behaviour.

Tax

In 2006, Mitchells & Butlers paid direct taxes of £150m and collected a further £250m on behalf of Her Majesty's Revenue & Customs. The Company also paid £124m in excise duty within the purchase price of goods.

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

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

Directors' report

The Directors present their report for the year ended 30 September 2006.

Principal activities

The Group is the leading operator of managed pubs and pub restaurants, with an estate of 2,110 sites as at 30 September 2006, located in the UK, and with 42 pubs in Germany.

Business review and future developments

The Directors' report should be read in conjunction with the Chairman's statement and Operating and financial review (OFR) on pages 4 to 21 which includes the Chief Executive's review, the Business review, the Finance Director's report and the Financial review (which are incorporated in this Directors' report by reference), which together include information about the Group's business, its financial performance during the year, likely developments, and any principal risks and uncertainties associated with the business. Details of the Group's policy on addressing financial risks are given in note 1 to the Accounts.

Dividends

The Board recommends a final dividend for the year ended 30 September 2006 of 8.6p per share to be paid on 5 February 2007 to shareholders on the register at close of business on 8 December 2006. This makes a total dividend for the year of 12.25p per share (2005 10.75p per share).

In addition to this, a Special Dividend of 100p per share was paid on 25 October 2006 as an interim dividend for the year ending 29 September 2007.

Directors

Details of the Directors who served on the Board during the year are shown on page 24. There were no changes to the Board during the year.

Interests of the Directors and their immediate families in the issued share capital of the Company are set out in the Remuneration report on page 36.

Directors' indemnity

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision, which is a qualifying third party indemnity provision as defined by Section 309B of the Companies Act 1985, was in force throughout the current financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and officers' liability insurance in respect of itself and its Directors.

Employees

The Group employed an average of 38,677 people in 2006 (2005 37,411). Details of the Group's employment policies are shown on page 10 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. The Group complies with relevant health and safety legislation. Details are included on page 20 of the OFR.

Environmental and social responsibility

Mitchells & Butlers recognises that it is part of a wider community and recognises that it has a responsibility to act in a way that respects the social, economic and environmental wellbeing of the wider world. A summary of the Company's approach to these issues is set out on pages 18 to 21 of the OFR.

Share capital

During the year, in view of the strong trading performance and resulting cash generation of the business, the Company commenced a share buyback programme. This buyback was intended to maintain an efficient balance sheet through the effective deployment of cash in the best interests of shareholders. During the period ended 30 September 2006, approximately 18m of the Company's shares were repurchased for £76m, of which 13.5m shares were cancelled and the remainder were transferred to employee share trusts. The effect of the share purchases on the capital of the Company was as follows:

	Ordinary shares of $7\frac{1}{12}$p
In issue at 2 October 2005	500,438,040
Bought and cancelled	(13,527,234)
In issue at 30 September 2006	486,910,806

The percentage of the called-up share capital represented by the repurchased shares was 2.7%.

Of the above issued share capital, 518,018 shares were held in Treasury, and the Company's employee share trusts held 2,209,624 shares at the year end.

After the year end, on 18 October 2006, the share capital of the Company was consolidated in the ratio of 34 new ordinary shares of $8\frac{13}{24}$p for every 41 existing ordinary shares of $7\frac{1}{12}$p.

Securities and Exchange Commission (SEC) Registration

Since listing in 2003, the Company has been registered with the SEC under the US Securities Exchange Act of 1934 (the 'Exchange Act'). However, in view of the increasing costs of maintaining this 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 from Six Continents in 2003, the Company has actively sought ways to terminate its Exchange Act registration. Under the relevant provisions of the Exchange Act, a company can only deregister if its shares are beneficially held by fewer than 300 people resident in the US.

At the AGM in 2006, the Company was given the power to limit the number of US resident holders holding its shares by requiring US resident shareholders with 20,000 shares or less to sell their shares. The Company used this provision during the year and accordingly on 24 August 2006 suspended its registration under the Exchange Act. The Company is no longer obliged to comply with the reporting requirements of the Exchange Act and, as a result, will no longer file an annual report on SEC Form 20-F or periodic reports on Form 6-K with the SEC.

Substantial shareholders
As at 28 November 2006, the Company had been notified of the following beneficial interests (3% or more) in its shares:

AXA S.A.	8.36%
Deutsche Bank	4.11%
Barclays	3.96%
Cantor Fitzgerald Europe	3.62%
Legal & General	3.48%

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 2006, options were granted to 1,534 employees over 979,667 shares at 401p per share, a 20% discount to the market price.

Share Incentive Plan
During the year 196,569 shares were allocated by the Share Incentive Plan Trustee as free shares to 8,183 eligible employees subject to the plan rules.

Executive Share Option Plan
Following the 2006 AGM, no further awards are to be made under this plan. 4,030,180 shares under option vested during the year.

Performance Restricted Share Plan
In 2006, 62 employees were granted nominal cost options which will vest subject to the achievement of performance conditions as set out on pages 30 to 31. 633,504 shares under option vested during the year.

Short Term Deferred Incentive Plan
This plan enables the Company to award Executive Directors all or part of their annual performance bonuses in shares, together with a related award of shares by the Company, subject to a performance condition, which is required to be deferred for a three year period.

252,976 shares were released from this scheme during the year. The Executive Directors' maximum accrued entitlements for the year and for future release are set out on page 34.

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 30 September 2006, 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 2.11% 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 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 pages 20 to 21 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 2007 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 41 to 85 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, 1 February 2007 is contained in a circular sent to shareholders with this report. At the meeting, resolutions will be proposed to renew the authority to issue shares without applying statutory pre-emption rights and to authorise the Company to make market purchases of its own shares.

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

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

By order of the Board
Bronagh Kennedy
Company Secretary
28 November 2006

Corporate governance

Combined Code compliance
The Board is committed to compliance with the principles of corporate governance as set out in the Combined Code on Corporate Governance (the 'Code') and considers that the Company has complied throughout the year ended 30 September 2006 with all the provisions of the Code.

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 30 September 2006. 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.

Although it filed to suspend its registration with the US Securities and Exchange Commission on 24 August 2006, and therefore is no longer required to comply with the requirements of the Sarbanes-Oxley Act to certify the effectiveness of its financial controls, the Directors remain fully committed to ensuring that the Company operates in a good control environment.

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

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

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

There are eight regular Board meetings currently planned for 2007, with further ad hoc meetings as required to consider matters which are time critical. There were nine meetings during 2005/06. Sir Tim Lankester 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 the shareholders for the strategic direction, development and control of the Group. It therefore approves strategic plans and capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains an overview and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance. The Board ensures that the necessary financial and human resources are in place for the Company to meet its objectives. The Board has established a schedule of matters which are reserved for its attention which are published on the Company's website.

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

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

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 22 and 23 of the Annual review and summary financial statement 2006 and these include their main commitments outside the Company.

Karim Naffah, Sir Tim Lankester and Sara Weller will retire by rotation and offer themselves for reappointment at the 2007 AGM on 1 February. Details of the Executive Directors' service contracts are set out on page 32. The Chairman and the four independent Non-Executive Directors have letters of appointment.

Chairman
Roger Carr is Chairman of the Board and has responsibility for the smooth running of the Board and for ensuring that all Directors are fully informed of matters relevant to their roles. He also ensures that appropriate communication is maintained with shareholders. Roger chairs a FTSE 100 company and is deputy chairman of another. The independent Non-Executive Directors led by the Senior Independent Director specifically considered his contribution as part of the Board effectiveness review referred to on page 26 and confirmed that he demonstrates, through his energy, commitment, knowledge and performance, that he is more than capable of dedicating sufficient time to his role of Chairman of the Company alongside his other non-executive commitments. The Chairman met separately with the Non-Executives without the Executive Directors present as part of the formal Board effectiveness review.

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

Senior Independent Director
Sara Weller is the Senior Independent Non-Executive Director. Her responsibilities include being available to liaise with shareholders who have issues to raise. She is a member of the Remuneration Committee, the Nomination Committee and the Audit Committee. 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 33, the independent Non-Executive Directors received no remuneration from the Company during the year. When Non-Executive Directors are considered for appointment, the Nomination Committee will take into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship.

All Directors are briefed by use of comprehensive papers 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 27.

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

Further details about the Committee are included in the Remuneration report on page 29.

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. The Company Secretary is secretary to this Committee. The terms of reference for this Committee are consistent with the requirements of the Combined Code. The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board and also for succession planning and it reviews the output of the Board effectiveness review. It met twice during the year to consider succession planning and to confirm the Chairman's continuing appointment for a further three year term, subject to reappointment at the 2008 AGM. Although Sir Tim Lankester was unable to attend one 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.

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 22 to 23 of the Annual review and summary financial statement 2006.

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 effectiveness evaluation
An evaluation of the Board’s effectiveness was carried out shortly after the year end, which included a review of the performance of the Chairman and of the individual Directors. Topics covered included succession planning, the provision of information to the Board, interaction with Board committees and liaison with Divisional Directors. Output from the Board effectiveness review is considered by the Nomination Committee to ensure that an appropriate balance of skills, knowledge and experience is represented on the Board. As a result of the Board effectiveness review, improvements to the dissemination of information between Board meetings have been instigated. Feedback from the review was given to the Board for discussion and the Directors concluded that the Board and its committees continue to work effectively.

Re-election of Directors
The Company ensures that Directors submit themselves for re-election every three years. The proposals for reappointments at the 2007 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.

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. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated. The Chairmen of the Audit, Remuneration and Nomination Committees attend to answer questions.

Audit Committee report

The Company's Audit Committee has met the requirements of the Combined Code on Corporate Governance 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 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.

Audit Committee frequency
The Committee meets at least four times a year. During 2005/06 six full meetings of the Committee were held. There was full attendance at all these meetings other than one at which Sara Weller was unable to attend. On that occasion all the papers and information relating to the meeting were provided and she was able to discuss issues arising with the Committee Chairman. In addition to the full meetings, an additional Audit Committee meeting was held in April, attended by George Fairweather and Drummond Hall, to specifically consider the Company's half year profit estimate before its publication.

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 US reports until SEC deregistration was achieved;
- The Group's half year profit estimate;
- The scope and cost of the external audit;
- Non-audit work carried out by the External Auditors and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguard of audit independence;
- The scope of the annual internal audit plan, the Internal Audit department's terms of reference 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 approach to RS1 'Operating and Financial Review';

- 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;
- Monitoring of the Group's International Financial Reporting Standard conversion exercise;
- Oversight of the Group's Sarbanes-Oxley compliance work and the disclosure controls and procedures operated by the Group until SEC deregistration was achieved;
- Review of the steps taken by the Group to achieve SEC deregistration;
- Review of the suitability of the Group's accounting policies and practices;
- The status of litigation involving the Group; and
- The Committee's own terms of reference, membership and its effectiveness.

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

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

An external assessment of the Group Assurance function was carried out in the year with the assistance of PricewaterhouseCoopers. The review confirmed that Group Assurance was providing an effective internal audit function and has been used to assist in developing the function's role following SEC deregistration.

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

Approved by the Board
George Fairweather
Chairman of the Audit Committee
28 November 2006

Remuneration report

This report has been prepared by the Remuneration Committee (the 'Committee') and has been approved by the Board. It complies with the Companies Act 1985 and also with the Combined Code on Corporate Governance (the 'Combined Code') and with the UKLA Listing Rules. Throughout this report, references to the year are to the **52** week period ended 30 September 2006. Comparatives, however, are for the **53** week period ended 1 October 2005. This report will be put to shareholders for approval at the forthcoming Annual General Meeting to be held on 1 February 2007.

The Remuneration Committee

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

- Sara Weller (Chairman)
- George Fairweather
- Drummond Hall
- 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.

There were five meetings of the Committee held during the year. Sir Tim Lankester and Drummond Hall 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. Roger Carr attended the meetings of the Committee during the year at the invitation of its Chairman, as did Tim Clarke, the Chief Executive. Neither attended on matters relating to his own remuneration.

The Committee noted the revisions made to the Combined Code during 2006, including permitting a chairman of the board who was considered independent at the time of appointment to become a member of the Remuneration Committee. Whilst the Board recognises that the change takes effect for financial years beginning on or after 1 November 2006, Roger Carr, the Chairman of the Board, was appointed to the Committee on 1 October 2006.

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

The Committee received external advice during the year from Watson Wyatt, 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, Director of Compensation & Benefits. None of these participated in discussions concerning their own remuneration. Additionally, during 2006, advice on the Chairman's fees was sought from Deloitte & Touche who also advise the Company on Non-Executive Directors' fees and advise on general tax matters.

The terms of reference of advisers to the Committee are on the Company's website, as are the terms of reference of the Committee itself. Watson Wyatt was independently appointed by the Committee, and does 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 as a whole. For the year under review, the total emoluments 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 below:

No. of executives	£000
2	301 – 350
4	351 – 400
1	501 – 550

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

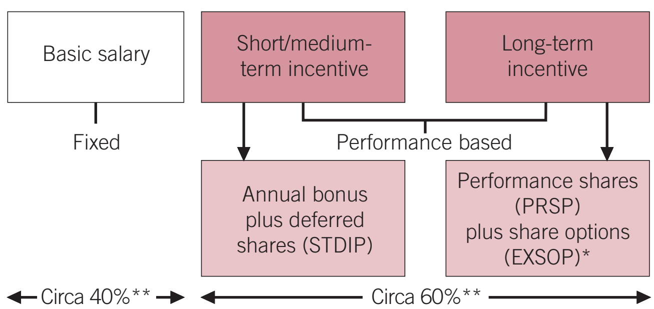
Remuneration policy for Executive Directors

The following overall policy has applied throughout the year:

- 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; and
- 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 32, has been satisfied.

Components of remuneration packages

The main components of Executive Directors' remuneration have to date been:



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

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

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

Basic salary

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

The proportion of the Group's basic salary bill attributable to the Directors and other members of the Executive Committee was 0.8% (2005 0.8%).

The average basic salary and short-term bonus of the Executive Directors during the year was £710,250 (2005 £621,394) and the average per non-Board employee was £13,387 (2005 £13,320); the ratio is therefore 1:53 (2005 1:47). 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.

The review of Directors' and senior executives' salaries was deferred from October 2005 to January 2006, bringing it into line with other corporate employees. In the year under review, the annualised base salary increase for members of the Executive Committee, which includes the Executive Directors, was 2.0%, whereas the annualised increase for other employees was 2.2%.

Annual performance bonus and Short Term Deferred Incentive Plan (STDIP)

Challenging performance goals are set which must be achieved before a bonus becomes payable. For 2005/06, the maximum bonus opportunity has been 100% of salary of which, for the year to 30 September 2006, 75% was linked to Earnings Per Share (EPS) and 25% to personal and Group business objectives. At the discretion of the Committee, the bonus is payable either in cash or in shares under the STDIP as set out below.

Under the STDIP, an award of Bonus Shares earned in 2005/06 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. There is no retesting of the performance condition. For awards of Matching Shares in respect of the financial year 2005/06, the performance condition is based on growth in EPS such that average EPS over the three year performance period must exceed an amount which is equivalent, from the start of the performance period to the end of the performance period, to at least 27% points in excess of RPI growth over that period. The vesting of Matching Shares will be on a sliding scale according to the level of EPS growth. No Matching Shares will be released unless average EPS over the three year performance period exceeds RPI growth, from the start of the performance period to the end of the performance period, by an amount equivalent to at least 12% points.

EPS has been applied because it is a measure which reflects movement in shareholder value and the challenging target, if met, would represent a significant achievement. The Company's auditors will review performance against the target.

As approved by shareholders at the 2006 AGM, participants will be entitled to receive Dividend Accrued Shares on vesting equal to the value of the dividends that would have been paid on the vested shares during the performance period. The value of the Special Dividend, paid to shareholders on 25 October 2006, will not be included in assessing the number of Dividend Accrued Shares to be awarded.

Performance Restricted Share Plan (PRSP)

The PRSP allows Executive Directors to receive, at the discretion of the Committee, cash or nominal priced options over shares subject to the satisfaction of a performance condition set by the Committee which is measured over a three year period. Currently, three cycles are being operated, with performance conditions based on Total Shareholder Return (TSR) and on Cash Return on Cash Capital Employed (CROCCE) 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 date of award consisted of:

Company	Cycle to September 2006	Cycle to September 2007	Cycle to September 2008
Enterprise Inns	•	•	•
Fuller, Smith and Turner	•	•	•
Greene King	•	•	•
J D Wetherspoon	•	•	•
Luminar	•	•	•
Punch Taverns	•	•	•
Regent Inns	•	•	•
The Restaurant Group	•	•	•
Whitbread	•	•	•
Wolverhampton & Dudley	•	•	•
Yates*	•		
Gondola Holdings			•

*Yates was removed following its delisting.

For the cycle to September 2006, the Company had to finish in first to fifth position for an award to vest, graded between 100% of the TSR element of the award for first to 20% for fifth position. Below fifth position, the award relating to TSR lapses. The Company finished in 4th position, so 40% vested. For the cycles to September 2007 and September 2008, the Company has to finish in first to fifth position for an award to vest. 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 CROCCE exceeds WACC over the performance period. The award for this element of the performance measure is graded so that, for the cycle to September 2006, if the amount by which the CROCCE exceeds the WACC over the performance period is at least 4.5% points, 100% of the CROCCE element of the award will vest, whereas, if the excess is 3% points, 20% of the award will vest. In between 3 and 4.5% points, the award will be graded on a straight line basis. Below 3% points, there will be no award in respect of this element. The excess of CROCCE over WACC for the cycle to September 2006 was 4.5% points, therefore 100% of this element of the award will vest.

For the cycles to September 2007 and September 2008, the vesting of the other 50% is based on the excess of CROCCE over WACC as described above, except that if the amount by which the CROCCE exceeds the WACC over the performance period is at least 5% points, 100% of the CROCCE element of the award will vest, whereas, if the excess is 3.5% points, 20% will vest.

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

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

Executive Share Option Plan (EXSOP)

Grants of EXSOP options were made annually up to June 2005 and no further grants are intended to be made under this plan. Grants were made at the discretion of the Committee according to seniority, the maximum value in any one year being two times salary. A performance condition, set by the Committee, has to be met before the options may be exercised. To the extent that the performance condition is not met the options lapse. For options granted in 2004, the performance measure is that cumulative EPS over the three year performance period must increase by at least 18% points over the growth in RPI before the options can be exercised in full. As this performance condition has been achieved, 100% of the options will become exercisable in May 2007. 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% points over the growth in RPI before options can be exercised in full. If the Company's cumulative EPS growth over the performance period is less than 12% points over the growth in RPI, the options will lapse. The performance measure under the EXSOP will be reviewed by the Company's auditors.

Rolled-over options

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

Other share plans

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

Companies used for comparison

In assessing overall levels of pay and benefits, Mitchells & Butlers 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 used for comparison have, with advice from Watson Wyatt, been significantly reviewed this year to ensure that they remain relevant and properly reflect the markets from which the organisation recruits. The Company's remuneration position against this group is similar to its position against the previous comparator group. The companies used for comparison in the current year were:

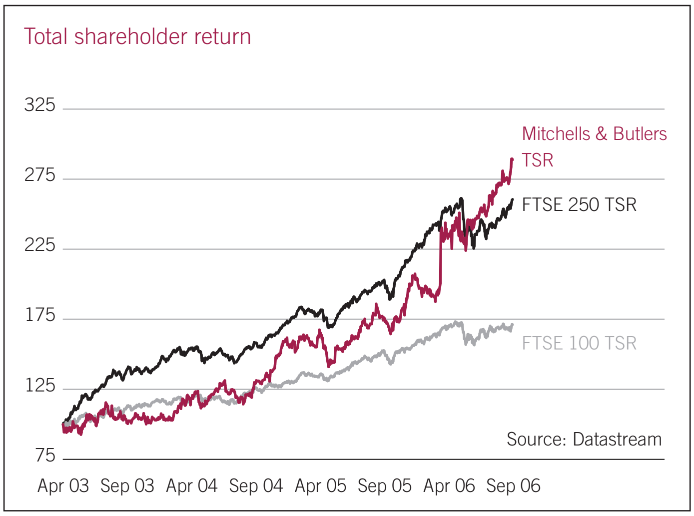
Carphone Warehouse	Punch Taverns
DSG	Rank Group
Enterprise Inns	Signet
Greene King	WH Smith
InterContinental Hotels Group	Whitbread
Ladbrokes	William Hill
Morrisons	Wolverhampton & Dudley
Next	

Company's performance against FTSE 100 and FTSE 250

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

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

Mitchells & Butlers' TSR versus FTSE 100 and 250
15.04.03 – 30.09.06



Directors' shareholdings
To support the Company's commitment to ensuring that Directors' interests are aligned to those of shareholders, there is a mandatory shareholding of three times salary for the Chief Executive and twice salary for other Executive Directors. 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. Each of the Executive Directors had, at 30 September 2006, achieved the mandatory shareholding.

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. A review of these fees was carried out in April 2006. Non-Executive Directors do not participate in the Company's share schemes.

Policy on Directors' contracts
It is the Company's normal policy to provide Executive Directors with rolling 12 month contracts, which provide for 12 months' notice from the Company and six months' notice from the Director. Service contracts provide for summary termination in the event of gross misconduct. In other circumstances, any severance payment would normally be based on a valuation of net pay and benefits for any unexpired notice period in the expectation that the Director has made reasonable attempts to mitigate his loss. There are no compensation provisions in relation to a change of control of the Company. Benefits normally include membership of a pension scheme 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 developing best practice.

Director	Contract start date	Unexpired term*	Notice period	Compensation payable on early termination**
Tim Clarke	15.04.03	Indefinite	12 months	n/a
Mike Bramley	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 retirement at age 60.
**No payments should normally be payable on termination, other than the salary and benefits due for the notice period and such entitlements under incentive plans that are consistent with the terms of such plans. Any entitlement under incentive plans will vest or lapse, subject to the discretion of the Remuneration Committee, in accordance with the terms of such plans.

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

The dates of appointment of the Non-Executive Directors are set out on page 24.

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

Policy on external appointments
The Company recognises that its Executive Directors may be invited to become non-executive directors of other listed companies and that such duties can broaden experience and knowledge, which will benefit the Company. Executive Directors are therefore allowed to accept one such non-executive appointment with the Company's prior approval and as long as this is not likely to lead to conflict of interest. Fees received may be retained by the Director. Tim Clarke is a non-executive director of Associated British Foods plc, and received £44,000 (2005 £34,090) during the year for that appointment.

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

Supplementary information on directors' remuneration

Directors' emoluments

	Basic salaries and fees £000	Annual performance bonus £000	Benefits £000	Total emoluments (excluding pensions) 2006 52 weeks £000	Total emoluments (excluding pensions) 2005 53 weeks £000
Executive Directors					
Tim Clarke	526	402	23	951	842
Mike Bramley	357	266	20	643	549
Tony Hughes	357	266	22	645	575
Karim Naffah	376	288	13	677	595
Non-Executive Directors					
Roger Carr	209	–	–	209	203
George Fairweather	51	–	–	51	50
Drummond Hall*	44	–	–	44	43
Sir Tim Lankester	44	–	–	44	43
Sara Weller	51	–	–	51	50
Total 2006	2,015	1,222	78	3,315	
Total 2005	2,005	865	80		2,950

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

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

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

Salary

As at 30 September 2006 and 28 November 2006, the basic annual salaries of Executive Directors were as shown below. The normal salary review date is 1 January.

Executive Director	30.09.06 and 28.11.06 £000
Tim Clarke	530
Mike Bramley	360
Tony Hughes	360
Karim Naffah	380

Annual performance bonus

The bonus for each Executive Director for 2005/06 was as follows:

Executive Director	Maximum bonus achievable £000	Bonus awarded* £000	EPS target achieved £000	Group and personal objectives £000
Tim Clarke	530	402	316	86
Mike Bramley	360	266	215	51
Tony Hughes	360	266	215	51
Karim Naffah	380	288	226	62

*At the discretion of the Committee, the Executive Directors deferred their bonuses into shares under the STDIP as shown on the following page.

Bonus deferred into shares under the STDIP:

Executive Director	% of bonus
Tim Clarke	75
Mike Bramley	50
Tony Hughes	100
Karim Naffah	50

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

Group business objectives related to:
- improvement in like-for-like sales;
- staff productivity;
- energy efficiency;
- guest satisfaction;
- effective purchasing;
- return on investment; and
- asset management.

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

Short Term Deferred Incentive Plan

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

	Carried forward as at 02.10.05*				Awarded in FY2006						
Director	Number of Matching Shares	Share price at year end	Value of Matching Shares £000	Earliest vesting date	Number of Matching Shares awarded	Share price on award date 05.12.05	Value of Matching Shares awarded £000	Total number of Matching Shares vested in year	Total number of Matching Shares yet to vest at 30.09.06	Share price at 30.09.06	Total value at 30.09.06 £000
Tim Clarke	77,662	365.25p	284	07.12.06	37,948	391.25p	148	28,852	86,758	589.5p	511
Mike Bramley	43,025	365.25p	157	07.12.06	46,666	391.25p	183	16,269	73,422	589.5p	433
Tony Hughes	50,891	365.25p	186	07.12.06	51,084	391.25p	200	18,891	83,084	589.5p	490
Karim Naffah	54,716	365.25p	200	07.12.06	27,002	391.25p	106	20,314	61,404	589.5p	362

*No performance condition attached to these Matching Shares under the rules of the STDIP as approved by shareholders on demerger. All awards of Matching Shares from FY2006 (i.e. from December 2005) onwards have a performance condition, which is described on page 30. The earliest vesting date for this award is December 2008.

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

	Number of Matching Shares	Award date	Share price on award date	Vesting date	Share price on vesting date	Market value on vesting date £000	Net shares received after tax and NI
Tim Clarke	8,894	09.12.03	235.75p	09.12.05	403.625p	36	5,240
	19,958	07.12.04	322.25p	07.12.05	389.625p	78	11,758
Mike Bramley	5,781	09.12.03	235.75p	09.12.05	403.625p	23	3,406
	10,488	07.12.04	322.25p	07.12.05	389.625p	41	6,179
Tony Hughes	5,781	09.12.03	235.75p	09.12.05	403.625p	23	3,406
	13,110	07.12.04	322.25p	07.12.05	389.625p	51	7,724
Karim Naffah	6,226	09.12.03	235.75p	09.12.05	403.625p	25	3,668
	14,088	07.12.04	322.25p	07.12.05	389.625p	55	8,300

Performance Restricted Share Plan

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

In 2006, there were three cycles of the plan in operation, each with a 36 month performance period, as outlined below.

- October 2003 to September 2006. The combined maximum award from the two measures is equivalent to 90% of basic salary at the date of the award.
- October 2004 to September 2007. The combined maximum award is also equivalent to 90% of basic salary at the date of the award.
- October 2005 to September 2008. The combined maximum award is, as approved by shareholders at the 2006 AGM, equivalent to 177% of basic salary at the date of the award.

Details of the two performance measures are set out on pages 30 and 31.

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

	Maximum potential shares as at 02.10.05 shares	Lapsed in year shares	Vested in year shares	Exercised in year shares	Share price on date of exercise	Granted in year shares	Maximum potential shares as at 30.09.06 shares	Maximum potential award as at 30.09.06* £000	Earliest vesting date
Tim Clarke	555,820	118,636	85,908	85,908	391.25p	235,702	586,978	3,460	30.11.06
Mike Bramley	366,074	77,114	55,840	55,840	403.75p	160,100	393,220	2,318	30.11.06
Tony Hughes	366,074	77,114	55,840	55,840	403.75p	160,100	393,220	2,318	30.11.06
Karim Naffah	391,970	83,045	60,135	60,135	391.25p	168,994	417,784	2,463	30.11.06

*Based on the share price on 29 September 2006 of 589.50p.

Directors' share options

	Ordinary shares under option									
Director	02.10.05	Granted	Vested	Exercised	30.09.06	Weighted average option price	Price of options exercised	Market share price on date of exercise	Earliest exercise date	Latest exercise date
Tim Clarke										
A	727,074	–	456,620	(181,212)	949,037	247.53p	291.71p	391.25p	–	27.05.13
	–	–	–	(53,445)	–	–	305.90p	591.00p	–	–
B	1,188,923	–	(456,620)	–	732,303	283.48p	–	–	23.05.07	23.05.15
Total	1,915,997	–	–	(234,657)	1,681,340	263.19p				
Mike Bramley										
A	346,277	–	296,800	(37,300)	605,777	245.35p	291.71p	398.25p	–	27.05.13
B	776,804	–	(296,800)	–	480,004	285.41p	–	–	23.05.07	23.05.15
Total	1,123,081	–	–	(37,300)	1,085,781	263.06p				
Tony Hughes										
A	409,127	–	296,800	(21,931)	683,996	253.95p	268.00p	398.25p	–	27.05.13
B	782,277	–	(296,800)	–	485,477	284.10p	–	–	23.05.07	23.05.15
Total	1,191,404	–	–	(21,931)	1,169,473	266.47p				
Karim Naffah										
A	394,712	–	319,630	(112,735)	510,862	237.36p	214.47p	391.25p	–	27.05.13
	–	–	–	(83,508)	–	–	305.90p	591.00p	–	–
	–	–	–	(7,237)	–	–	291.71p	391.25p	–	–
B	836,211	–	(319,630)	–	516,581	284.45p	–	–	23.05.07	23.05.15
Total	1,230,923	–	–	(203,480)	1,027,443	261.04p				

No Directors' options over Mitchells & Butlers plc shares under the EXSOP and Sharesave plan lapsed during the year.

The total gain made in the year by all Directors on the exercise of the above share options was £845,633 (2005 £997,682). All of the options exercised were Rolled-over options.

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

Shares under option at 30 September 2006 are designated as:

A Where the options are exercisable and the market price per share was above the option price at 29 September 2006; and
B Where the options are not yet exercisable and the market price was above the option price on 29 September 2006.

The market price per share on 29 September 2006 was 589.5p and the range during the year to 30 September 2006 was 345p to 591p per share.

The above table excludes potential awards under the PRSP.

Share Incentive Plan (SIP)

As at 30 September 2006, the Executive Directors had the following entitlements subject to the rules of the all employee Share Incentive Plan:

	Awarded 27.06.03 @ 238.5p	Normal vesting date*	Awarded 28.06.04 @ 271.75p	Normal vesting date	Awarded 30.06.05 @ 330p	Normal vesting date	Awarded 05.07.06** @ 519.75p	Normal vesting date	Total unvested shares
Tim Clarke	910	27.06.06	1,103	28.06.07	909	30.06.08	577	05.07.09	2,589
Mike Bramley	692	27.06.06	1,044	28.06.07	872	30.06.08	558	05.07.09	2,474
Tony Hughes	756	27.06.06	1,044	28.06.07	872	30.06.08	558	05.07.09	2,474
Karim Naffah	834	27.06.06	1,103	28.06.07	909	30.06.08	577	05.07.09	2,589

*The share price on 27 June 2006, the date of vesting, was 505p.
**The share price on 5 July 2006, the date of award, was 515p.

Subsequent to the year end, a Special Dividend was paid and the share capital consolidated in the ratio 34:41. As the Special Dividend was paid in respect of the shares held in the SIP, the shares were consolidated in the ratio 34:41.

Directors' shareholdings

	Ordinary shares of 7½p	
	30.09.06	02.10.05
Executive Directors		
Tim Clarke	587,291	427,978
Mike Bramley	125,682	47,926
Tony Hughes	133,773	62,793
Karim Naffah	271,119	144,380
Non-Executive Directors		
Roger Carr	21,067	11,067
George Fairweather	2,000	–
Drummond Hall	3,500	2,500
Sir Tim Lankester	1,227	–
Sara Weller	5,252	2,200

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

At 30 September 2006, the Executive Directors, as potential beneficiaries under the Company's Employee Benefit Trust (the 'Trust'), were technically deemed to be interested in 1,299,046 (2005 1,303,068) Mitchells & Butlers ordinary shares of 7½p held in the Trust.

In the period from 1 October 2006 to 28 November 2006, the only changes in the Directors' interests, other than to reflect the impact of the share consolidation which took place on 18 October 2006, were the reinvestment of the Special Dividend in Karim Naffah's ISAs (1,808 shares), the exercise of a Sharesave option over 5,473 shares at an option price of 169p by Tony Hughes and changes to the balance of the shares held in the Trust, which stood at 11,723 ordinary shares of 8 13/24p as at 28 November 2006.

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

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

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

The Plan is a funded occupational pension scheme which has 'registered' status with HM Revenue & Customs and therefore is subject to preferential tax treatment compared to unregistered schemes such as MABETUS. It has a final salary section of which these Executive Directors are members. For these Directors, benefits up to the earnings 'cap' are provided by the Plan and MABETUS is used to provide benefits in excess of the 'cap' which limits the amount of benefits which receive preferential tax treatment under a registered scheme. The Plan's main features applicable to these 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.

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

Directors' pension benefits

Director	Years of pensionable service	Age at 30.09.06	Directors' contribution* £	Transfer value of accrued pension 02.10.05 £	Transfer value of accrued pension 30.09.06 £	Increase in transfer value over year less Directors' contributions £	Increase in accrued pension ** £pa	Increase in accrued pension *** £pa	Accrued pension at 30.09.06 **** £pa
Tim Clarke	16	49	20,800	2,976,600	3,459,200	461,800	19,600	12,200	276,100
Mike Bramley	26	55	8,100	3,270,000	3,754,500	476,400	15,900	9,600	232,400
Tony Hughes	11	58	16,800	1,877,300	2,301,000	406,900	13,900	10,800	122,400
Karim Naffah	15	43	17,300	1,262,700	1,522,000	242,000	15,000	11,000	156,600

*Contributions paid in the year by the Directors under the terms of the plans.
**The absolute increase in accrued pension during the year.
***The increase in accrued pension during the year, excluding any increase for inflation.
****Accrued pension is that which would be paid annually on retirement at 60, based on service to 30 September 2006.

Members of the Plan have the option to pay Additional Voluntary Contributions, 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 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
28 November 2006

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities below, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

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

The Directors consider that in preparing the financial statements on pages 41 to 44, the Group has used appropriate accounting policies, consistently applied 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 Group keeps accounting records which disclose with reasonable accuracy the financial position of the Group 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 Group and to prevent and detect fraud and other irregularities.

Report from the auditors

We have audited the group financial statements of Mitchells & Butlers plc for the year ended 30 September 2006 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement and the related notes 1 to 34. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Mitchells & Butlers plc for the year ended 30 September 2006 and on the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

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

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

We report to you our opinion as to whether the group financial statements give a true and fair view, the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the information given in the Directors' report is consistent with the financial statements.

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

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 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 other information contained in the Annual report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Operating and financial review, the Directors' report, the Corporate governance statement, the Audit Committee report, the unaudited part of the Directors' remuneration report and the Five year review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2006 and of its profit for the year then ended;

- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- the information given in the Directors' report is consistent with the group financial statements.

Ernst & Young LLP
Registered auditor
London
28 November 2006

Group income statement

For the 52 weeks ended 30 September 2006

		2006 52 weeks			2005 53 weeks		
	Notes	**Before exceptional items £m**	**Exceptional items* £m**	**Total £m**	Before exceptional items £m	Exceptional items* £m	Total £m
Revenue	1, 2	**1,720**	**–**	**1,720**	1,662	–	1,662
Operating costs before depreciation and amortisation	3, 8	**(1,290)**	**(7)**	**(1,297)**	(1,251)	(4)	(1,255)
Profit arising on property-related items	8	**–**	**23**	**23**	–	1	1
EBITDA**		**430**	**16**	**446**	411	(3)	408
Depreciation and amortisation	13, 14	**(121)**	**–**	**(121)**	(116)	–	(116)
Operating profit	2	**309**	**16**	**325**	295	(3)	292
Finance costs	8, 9	**(118)**	**(4)**	**(122)**	(116)	–	(116)
Finance revenue	9	**9**	**–**	**9**	11	–	11
Net finance income from pensions	9	**8**	**–**	**8**	3	–	3
Profit before tax		**208**	**12**	**220**	193	(3)	190
Tax expense	8, 10	**(64)**	**39**	**(25)**	(60)	–	(60)
Profit for the financial period attributable to equity holders of the parent		**144**	**51**	**195**	133	(3)	130
Earnings per ordinary share							
Basic	12	**29.3p**		**39.7p**	26.0p		25.4p
Diluted	12	**28.6p**		**38.8p**	25.7p		25.1p

*Exceptional items are explained in note 1 and analysed in note 8.
**Earnings before interest, tax, depreciation and amortisation.

None of the above activities relate to discontinued operations.

The notes on pages 45 to 85 form an integral part of these financial statements.

Group statement of recognised income and expense

For the 52 weeks ended 30 September 2006

	Notes	**2006 52 weeks £m**	2005 53 weeks £m
Losses on cash flow hedges taken to equity	20	**(22)**	(28)
Actuarial gains/(losses) on defined benefit pension schemes	7	**27**	(7)
Tax on items recognised directly in equity	10	**11**	15
Tax (charge)/credit relating to movement on unrealised gains due to previous revaluations	10	**(4)**	20
Income recognised directly in equity		**12**	–
Transfers to the income statement:			
On cash flow hedges	20	**16**	3
Tax on items transferred from equity	10	**(5)**	(1)
Net income recognised directly in equity		**23**	2
Profit for the financial period		**195**	130
Total recognised income and expense for the financial period attributable to equity holders of the parent		**218**	132

The notes on pages 45 to 85 form an integral part of these financial statements.

Group balance sheet

30 September 2006

	Notes	2006 £m	2005 £m
ASSETS			
Goodwill and other intangible assets	13	**22**	26
Property, plant and equipment	14	**3,867**	3,447
Lease premiums		**13**	16
Deferred tax asset	21	**68**	81
Total non-current assets		**3,970**	3,570
Inventories	15	**42**	39
Trade and other receivables	16	**81**	77
Other financial assets		**–**	1
Cash and cash equivalents	27	**375**	199
Total current assets		**498**	316
Non-current assets held for sale and disposal group	17	**88**	9
Total assets		**4,556**	3,895
LIABILITIES			
Borrowings	19	**(41)**	(39)
Derivative financial instruments	20	**(7)**	(6)
Trade and other payables	18	**(251)**	(220)
Current tax liabilities		**(22)**	(60)
Total current liabilities		**(321)**	(325)
Borrowings	19	**(2,375)**	(1,773)
Derivative financial instruments	20	**(55)**	(42)
Pension liabilities	7	**(99)**	(151)
Deferred tax liabilities	21	**(418)**	(417)
Provisions	22	**(3)**	(4)
Total non-current liabilities		**(2,950)**	(2,387)
Total liabilities		**(3,271)**	(2,712)
Net assets attributable to equity holders of the parent		**1,285**	1,183
EQUITY			
Called up share capital	23, 25	**34**	35
Share premium account	25	**14**	14
Capital redemption reserve	25	**3**	2
Own shares held	25	**(12)**	(12)
Hedging reserve	25	**(30)**	(24)
Translation reserve	25	**6**	6
Retained earnings	25	**1,270**	1,162
Total equity		**1,285**	1,183

The notes on pages 45 to 85 form an integral part of these financial statements.

Signed on behalf of the Board
Tim Clarke
Karim Naffah
28 November 2006

Group cash flow statement

For the 52 weeks ended 30 September 2006

	Notes	**2006 52 weeks £m**	2005 53 weeks £m
Cash flow from operations	26	**430**	400
Interest paid		**(115)**	(113)
Interest received		**8**	11
Tax paid		**(48)**	(43)
Net cash from operating activities		**275**	255
Investing activities			
Purchases of property, plant and equipment		**(179)**	(165)
Acquisition of Whitbread pub restaurant sites		**(489)**	–
Purchases of intangibles (computer software)		**(3)**	(2)
Proceeds from sale of property, plant and equipment		**88**	57
Proceeds from cash deposits with a maturity of greater than three months		**1**	19
Defence costs	8	**(4)**	–
Net cash used in investing activities		**(586)**	(91)
Financing activities			
Issue of ordinary share capital		**–**	2
Purchase of own shares		**(76)**	(101)
Proceeds on release of own shares held		**12**	14
Repayment of principal in respect of securitised debt	19	**(460)**	(35)
Proceeds from issue of securitised debt		**1,078**	–
Expenditure associated with refinancing		**(10)**	–
Repayment of principal in respect of other loans		**(1)**	–
Dividends paid	11	**(56)**	(50)
Net cash used in financing activities		**487**	(170)
Net increase/(decrease) in cash and cash equivalents	28	**176**	(6)
Cash and cash equivalents at the beginning of the financial period		**199**	205
Cash and cash equivalents at the end of the financial period		**375**	199

Cash and cash equivalents are defined in note 1.

The notes on pages 45 to 85 form an integral part of these financial statements.

Notes to the financial statements

1. General information

With effect from 2 October 2005, Mitchells & Butlers plc (the 'Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and in accordance with the Companies Act 1985. This is the Group's first Annual report under IFRS.

The Group has restated its results for the 53 weeks ended 1 October 2005 from accounting principles generally accepted in the UK ('UK GAAP') to comply with IFRS and these, together with an opening IFRS balance sheet at 26 September 2004, are available from the Company's website, www.mbplc.com/IFRS. The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 34. The basis of preparation and significant accounting policies applied in preparing this IFRS information for the Group are set out below.

The consolidated financial statements are prepared on a historical cost basis, except for certain items of property, plant and equipment held at deemed cost under the transitional rules of IFRS, together with derivative financial instruments and pension scheme assets and liabilities which are measured at fair value. They are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. The policies have been applied consistently, although certain exemptions to the retrospective application of IFRS have been made by the Group in accordance with IFRS 1 'First-time Adoption of International Financial Reporting Standards'.

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

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

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

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

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

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

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

Property, plant and equipment
Property, plant and equipment is stated at historical cost or deemed cost less accumulated depreciation and any impairment in value. Properties and land that had been revalued prior to 26 September 2004, the date of transition to IFRS, are stated on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

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

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

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

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

1. General information continued

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

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

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

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

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

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

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

Financial instruments
i Trade and other receivables
Trade and other receivables are recognised and carried at original cost less an allowance for any uncollectible amounts.

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

iii Trade and other payables
Trade and other payables are recognised at original cost.

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

v Derivative financial instruments and hedge accounting
The Group uses interest rate and currency swap contracts to hedge its exposures to changes in interest rates and exchange rates. These contracts are designated as cash flow hedges and hedge accounting is applied where appropriate. Derivative financial instruments are not used for trading or speculative purposes.

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

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

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

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

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities

1. General information continued

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

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

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

The majority of revenue comprises food and beverages sold in the Group's outlets. Revenue is recognised at the point of sale to the customer.

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

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

Employee benefits
i Pension obligations
The Group has both defined benefit and defined contribution pension arrangements.

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

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

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

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

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

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

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

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

1. General information continued

Recent accounting developments

During the year, the International Accounting Standards Board ('IASB') and International Financial Reporting Interpretations Committee ('IFRIC') issued the following standards and interpretations with an effective date after the date of these financial statements. They have not been adopted early by the Group. The Directors do not anticipate that the adoption of these standards or interpretations will have a material impact on the Group's financial statements in the period of initial adoption.

IFRS 7 'Financial instruments: disclosures' will require disclosure of additional information relating to the Group's financial instruments. There will be no impact on reported income or net assets. IFRS 7 is first effective for periods beginning on or after 1 January 2007.

IFRIC 4 'Determining whether an arrangement contains a lease' is effective for periods beginning on or after 1 January 2006, but is not expected to impact the Group's reported income or net assets.

Exchange rates

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the financial period of £1 = €1.46 (2005 £1 = €1.45), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.47 (2005 £1 = €1.47) and £1 = $1.87 (2005 £1 = $1.76) respectively.

2. Segmental analysis

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

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

	2005 53 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Revenue						
Sales to third parties	957	697	1,654	8	–	1,662
Operating profit						
Operating profit before exceptional items	179	115	294	1	–	295
Exceptional items	(2)	(1)	(3)	–	–	(3)
Operating profit after exceptional items	177	114	291	1	–	292
Net finance costs						(102)
Tax expense						(60)
Profit for the financial period						130

	2006 52 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Net assets						
Assets	2,179	1,914	4,093	19	–	4,112
Liabilities	(139)	(106)	(245)	(1)	–	(246)
Segmental net assets	2,040	1,808	3,848	18	–	3,866
Net debt					(2,067)	(2,067)
Other unallocated liabilities*					(514)	(514)
					(2,581)	1,285
Other						
Capital expenditure	92	595	687	–	–	687
Depreciation and amortisation	69	52	121	–	–	121

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

2. Segmental analysis continued

	2005 53 weeks					
	Pubs & Bars £m	Restaurants £m	Retail Total £m	SCPD £m	Unallocated £m	Total £m
Net assets*						
Assets	2,103	1,493	3,596	18	–	3,614
Liabilities	(132)	(91)	(223)	(1)	–	(224)
Segmental net assets	1,971	1,402	3,373	17	–	3,390
Net debt					(1,625)	(1,625)
Other unallocated liabilities**					(582)	(582)
					(2,207)	1,183
Other						
Capital expenditure	80	89	169	–	–	169
Depreciation and amortisation	66	50	116	–	–	116

*The segmental net assets have been revised from those previously reported under UK GAAP as part of the Group's transition to IFRS, reflecting adjustments to property, plant and equipment, leases and holiday pay (see note 34).

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

Geographic segments

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

	UK		Germany		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Revenue – sales to third parties	**1,685**	1,628	**35**	34	**1,720**	1,662
Segment assets	**4,069**	3,568	**43**	46	**4,112**	3,614
Capital expenditure	**686**	167	**1**	2	**687**	169

3. Operating costs

	2006 52 weeks £m	2005 53 weeks £m
Raw materials and consumables	**461**	438
Changes in inventory of finished goods and work in progress	**(3)**	4
Staff costs (note 5)	**455**	434
Hire of plant and machinery	**34**	35
Operating lease rentals:		
– minimum lease payments	**45**	45
– contingent rents	**2**	2
Other costs	**303**	297
	1,297	1,255
Depreciation of property, plant and equipment	**114**	110
Amortisation of intangible assets	**7**	5
Depreciation of lease premiums	**–**	1
Depreciation and amortisation	**121**	116
	1,418	1,371

4. Auditors' remuneration

	2006 52 weeks £m	2005 53 weeks £m
Audit of the financial statements	**0.4**	0.5
Other fees to auditors:		
– US Sarbanes Oxley services	**0.1**	0.1
– taxation and other services	**0.1**	0.1
– corporate finance services	**0.4**	–
	0.6	0.2

The auditors' fee for the audit of the parent company was £20,000 (2005 £15,000).

Corporate finance services costs of £300,000 (2005 £nil) have been capitalised as part of the costs of the transactions to which they relate.

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

5. Employees and Directors

	2006 52 weeks £m	2005 53 weeks £m
Costs		
Wages and salaries	**397**	382
Share-based payments (note 6)	**8**	6
Total wages and salaries	**405**	388
Social security costs	**35**	32
Pensions (note 7)	**15**	14
	455	434

	Number	Number
Average number of employees, including part-time employees		
Retail	**38,676**	37,407
SCPD	**1**	4
	38,677	37,411

Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in shares is given in the Remuneration report on pages 33 to 38.

6. Share-based payments

The expense recognised for share-based payments in the year is £8m (2005 £6m) which comprises share option schemes and share awards.

The Company has six share option schemes, all of which are equity-settled, in operation during the year.

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

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

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

Short-Term Deferred Incentive Plan
Under the Short-Term Deferred Incentive Plan the annual bonuses of the Executive Directors are deferred into Mitchells & Butlers shares with one matching share awarded for every bonus share.

Up to and including the grant in December 2004 (relating to the 2003/04 bonus year) there was no additional performance condition over the deferral period. For the grant in December 2005 (relating to the 2004/05 bonus year) an additional earnings per share related performance condition applies in respect of the vesting of matching shares. Matching shares will only be released in full if the Company's adjusted earnings per share over the three year performance period ending 27 September 2008 exceeds by at least 27 percentage points the increase in the UK Retail Price Index for the same period.

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

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

Performance Restricted Share Plan
The Performance Restricted Share Plan allows Executive Directors and other eligible employees to receive nominal cost options, subject to the satisfaction of a performance condition, set by the Remuneration Committee, which is normally measured over a three year period. Vesting is conditional upon the achievement of total shareholder return (TSR) and cash return on cash capital employed (CROCCE) performance conditions. The vesting period for these options is generally three years followed by a two year exercise period. For the options with the TSR performance condition, Monte Carlo simulations were performed to incorporate the market condition in the measurement of the fair value.

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

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

Rolled-over Options
Under the terms of the separation in 2003, holders of options under the Six Continents Executive Share Option Schemes were given the opportunity to exchange their Six Continents PLC options for equivalent value new options over Mitchells & Butlers plc shares. The exchanged options are not subject to performance conditions and were immediately exercisable. The latest possible exercise date for any of the rolled-over options outstanding at 30 September 2006 is 28 May 2012.

Further details of the above schemes are included in the Remuneration report on pages 30 to 31.

6. Share-based payments continued

The following tables set out awards and options granted during 2006. No options were granted under the Executive Share Option Plan or Rolled-over options during the period.

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan	Share Incentive Plan
Number of shares/options awarded in 2006	325,400	2,346,626	979,667	196,569

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

2006

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan
Valuation model	Black-Scholes	Monte Carlo Simulation and Binomial	Black-Scholes
Weighted average share price	**391.3p**	**401.0p**	**509.3p**
Exercise price	**Nil**	**–**[i]	**401.0p**
Expected dividend yield	**3.27%**	**–**[ii]	**3.27%**
Risk-free interest rate	**4.23%**	**4.21%**	**4.80%**
Volatility [iii]	**26.0%**	**26.0%**	**26.0%**
Expected life (years) [iv]	**3.0**	**2.8**	**4.0**

2005

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Sharesave Plan	Executive Share Option Plan
Valuation model	Black-Scholes	Monte Carlo Simulation and Binomial	Black-Scholes	Binomial
Weighted average share price	322.3p	322.0p	334.3p	327.4p
Exercise price	Nil	–[i]	258.5p	326.1p
Expected dividend yield	3.27%	3.27%	3.27%	3.27%
Risk-free interest rate	4.37%	4.59%	4.11%	4.36%
Volatility [iii]	31.0%	31.0%	31.0%	31.0%
Expected life (years) [iv]	2.0	2.9	4.1	6.5

[i] The exercise price relating to the Performance Restricted Share Plan is £1 per participating employee per share plan.

[ii] The expected dividend yield input for the grant of Performance Restricted Share Plan options in 2006 is zero as participants are entitled to additional shares to the value of the dividends paid during the vesting period.

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

[iv] The expected term of the options is taken to be the midpoint between vesting and lapse, except for the Performance Restricted Share Plan where the terms of the plan result in it being advantageous for participants to exercise directly after vesting. In this case the expected life has been assumed to equate to the vesting period. For the Executive Share Option Plan, which has a significant exercise period, historic exercise patterns have been considered.

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

6. Share-based payments continued

Movements in the awards and options outstanding under these schemes for the 52 weeks ended 30 September 2006 and the 53 weeks ended 1 October 2005 are as follows:

	Short-Term Deferred Incentive Plan	Performance Restricted Share Plan	Share Incentive Plan
	Number of shares thousands	Number of shares thousands	Number of shares thousands
Outstanding at 26 September 2004	240	4,112	605
Granted	519	1,285	310
Exercised	(80)	–	(20)
Lapsed	–	(1,025)	(85)
Outstanding at 1 October 2005	679	4,372	810
Granted	325	2,347	197
Exercised	(253)	(600)	(54)
Lapsed	–	(952)	(74)
Outstanding at 30 September 2006	751	5,167	879
Fair value of options granted during the period (pence)			
At 30 September 2006	354.1	275.8	515.0
At 1 October 2005	301.6	211.6	334.3
Weighted average remaining contract life (years)			
At 30 September 2006	1.3	3.3	–[i]
At 1 October 2005	1.1	3.1	–[i]

[i]SIP shares are capable of remaining with the SIP trust indefinitely while participants continue to be employed by the Group.

	Executive Share Option Plan		Sharesave Plan		Rolled-over Options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 26 September 2004	7,931	235.3	4,721	182.1	15,225	261.9
Granted	3,460	326.1	1,163	258.5	–	–
Exercised	–	–	(22)	171.4	(6,366)	246.3
Lapsed	(69)	234.8	(930)	186.6	(1,637)	279.2
Options outstanding at 1 October 2005	11,322	263.1	4,932	199.3	7,222	271.9
Granted	–	–	980	401.0	–	–
Exercised	(1,475)	221.7	(35)	173.9	(3,456)	268.9
Lapsed	(107)	297.7	(682)	215.7	(665)	255.2
Options outstanding at 30 September 2006	9,740	268.9	5,195	235.4	3,101	278.7
Options exercisable						
At 30 September 2006	2,592	219.0	–	–	3,101	278.7
At 1 October 2005	–	–	–	–	7,222	271.9
Fair value of options granted during the period (pence)						
At 30 September 2006	–		147.7		–	
At 1 October 2005	86.0		104.9		–	
Range of option prices (pence)						
At 30 September 2006		219.0 – 330.5		169.0 – 401.0		214.5 – 364.5
At 1 October 2005		219.0 – 330.5		169.0 – 258.5		214.5 – 364.5

6. Share-based payments continued

Options were exercised on a regular basis during the period. The weighted average share price during the period was 458.0p (2005 328.3p).

Summarised information about options outstanding at 30 September 2006 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[(i)]	**5,167**	**3.3**	**–**[(i)]	**26**	**1.2**	**–**[(i)]
Executive Share Option Plan						
219.0	2,592	6.7	219.0	2,592	6.7	219.0
252.5	3,796	7.6	252.5	–	–	–
326.1 – 330.5	3,352	8.6	326.2	–	–	–
	9,740	**7.7**	**268.9**	**2,592**	**6.7**	**219.0**
Sharesave Plan						
169.0	2,303	1.3	169.0	–	–	–
209.0	1,043	2.2	209.0	–	–	–
258.5	883	3.1	258.5	–	–	–
401.0	966	4.0	401.0	–	–	–
	5,195	**2.3**	**235.4**	**–**	**–**	**–**
Rolled-over Options						
181.4 to 242.0	103	3.4	214.5	103	3.4	214.5
242.1 to 303.0	2,516	4.4	268.0	2,516	4.4	268.0
303.1 to 364.5	482	1.1	348.4	482	1.1	348.4
	3,101	**3.9**	**278.7**	**3,101**	**3.9**	**278.7**

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

7. Pensions

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

In the 52 weeks ended 30 September 2006, the Group paid regular contributions to the pension plans of £11m in respect of the defined benefit arrangements and additional contributions of £20m. In 2005, the regular contributions were £12m and additional contributions were £30m. Employer contribution rates to the defined benefit arrangements for the 52 weeks ending 29 September 2007 are 16.5% for the MABPP and 34.0% for the MABEPP. It has also been agreed that further additional contributions of £60m will be paid over the next two years, of which £10m relates to the agreement reached at the time of the last full actuarial valuation carried out at 31 March 2004. Total contributions of £50m are expected to be paid in the 52 weeks ending 29 September 2007 in respect of defined benefit schemes. The Group paid £1m (2005 £1m) in respect of the defined contribution arrangements. Pension costs are assessed in accordance with the advice of independent qualified actuaries.

The valuations used for IAS 19 purposes are based on the results of the full actuarial valuations carried out at 31 March 2004 updated by the independent qualified actuaries to 30 September 2006. Scheme assets are stated at market value at 30 September 2006 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.

7. Pensions continued

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

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

Mortality assumptions

The mortality assumptions are based on the PA92 standard tables, adjusted by three years to allow for increased life expectancy for non-retired members and by one year for current pensioners, and are set out below:

	2006 years	2005 years
Current pensioners (at 65)		
– male	**17.8**	17.8
– female	**20.7**	20.7
Future pensioners (at 65)		
– male	**19.4**	19.4
– female	**22.4**	22.4

To develop the expected long-term rate of return on assets assumptions, the Group considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was weighted based on the asset allocation, to develop the expected long-term rate of return on assets assumption for the portfolio, resulting in a weighted average assumption of 6.3% at 30 September 2006. The actual investment return achieved on the scheme assets over the year was 10.8%.

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

	2006		2005	
	Long-term rates of return expected %	Value £m	Long-term rates of return expected %	Value £m
Equities	**7.5**	**596**	7.5	562
Bonds	**4.6**	**488**	4.6	428
Property	**7.5**	**98**	7.5	88
Fair value of assets		**1,182**		1,078
Present value of scheme liabilities		**(1,281)**		(1,229)
Deficit in the schemes recognised as a liability in the balance sheet		**(99)**		(151)
Associated deferred tax asset		**32**		50

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

Group income statement	2006 £m	2005 £m
Operating profit:		
Current service cost (defined benefit plans)	**(14)**	(12)
Current service cost (defined contribution plans)	**(1)**	(1)
Past service cost	**–**	(1)
Charge to operating profit	**(15)**	(14)
Finance income:		
Expected return on pension scheme assets	**69**	62
Interest on pension scheme liabilities	**(61)**	(59)
Net finance income in respect of pensions	**8**	3
Total charge	**(7)**	(11)

7. **Pensions** continued

Group statement of recognised income and expense	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	**43**	100
Experience gains and losses arising on the scheme liabilities	**–**	–
Changes in assumptions underlying the present value of the scheme liabilities	**(16)**	(107)
Actuarial gain/(loss) recognised	**27**	(7)

The table below analyses the movement in the schemes' net deficit in the period:

	Pension assets		Pension obligations		Net deficit	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
At beginning of period	**1,078**	912	**(1,229)**	(1,088)	**(151)**	(176)
Current service cost	**–**	–	**(14)**	(12)	**(14)**	(12)
Past service cost	**–**	–	**–**	(1)	**–**	(1)
Interest cost on benefit obligations	**–**	–	**(61)**	(59)	**(61)**	(59)
Expected return on plan assets	**69**	62	**–**	–	**69**	62
Employee contributions	**3**	4	**(3)**	(4)	**–**	–
Employer contributions	**31**	42	**–**	–	**31**	42
Benefits paid	**(42)**	(42)	**42**	42	**–**	–
Actuarial gain/(loss) recognised	**43**	100	**(16)**	(107)	**27**	(7)
At end of period	**1,182**	1,078	**(1,281)**	(1,229)	**(99)**	(151)

History of experience gains and losses	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets					
Amount (£m)	**43**	100	27	39	(124)
Percentage of scheme assets	**4%**	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 Group statement of recognised income and expense					
Amount (£m)	**27**	(7)	39	(71)	(228)
Percentage of the present value of the scheme liabilities	**2%**	(1)%	4%	(7)%	(25)%

The cumulative amount of actuarial gains and losses recognised since 26 September 2004 in the Group statement of recognised income and expense is a £20m gain (2005 £7m loss). The Directors are unable to determine how much of the pension scheme deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of the schemes. Consequently, the Directors are unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of recognised income and expense before 26 September 2004.

8. Exceptional items

	Notes	2006 52 weeks £m	2005 53 weeks £m
Operating exceptional items			
Defence costs	a	**(4)**	–
Licensing costs	b	**–**	(4)
Refinancing costs	d	**(3)**	–
		(7)	(4)
Profits on disposal of properties		**41**	1
Losses on disposal of properties		**(14)**	–
Fair value adjustments on classification of non-current assets held for sale	c	**(4)**	–
Profit arising on property-related items		**23**	1
Total operating exceptional items		**16**	(3)
Exceptional finance costs	d	**(4)**	–
Total exceptional items before tax		**12**	(3)
Tax charge relating to above items		**(1)**	–
Exceptional tax released in respect of prior years	e	**40**	–
		39	–
Total exceptional items after tax		**51**	(3)

a Costs associated with evaluation of the R20 approach to acquire the share capital of Mitchells & Butlers plc and its subsidiaries.

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

c Fair value adjustments on classification of non-current assets held for sale represent adjustments to the carrying value of property, plant and equipment, prior to transferring these to assets held for sale. These adjustments are made where the expected net sale proceeds are less than the book value.

d Refinancing costs consist of operating expenses incurred in relation to the refinancing of the Group's securitised debt, further details of which are given in note 19. The refinancing also gave rise to accelerated amortisation of capitalised transaction costs. This related to secured loan notes, which were repaid on refinancing. The amortisation has been charged to finance costs.

e Represents the release of provisions relating to tax matters which have been settled principally relating to disposals and qualifying capital expenditure.

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

9. Finance costs and revenue

	Notes	2006 52 weeks £m	2005 53 weeks £m
Finance costs			
Securitised and other debt*			
– before exceptional charge		**(118)**	(116)
– exceptional charge	8	**(4)**	–
Finance revenue			
Interest receivable		**9**	11
Interest on net debt		**(113)**	(105)
Net finance income from pensions	7	**8**	3

*Includes £4m of finance costs in respect of a term loan facility repaid during the year.

10. Tax expense

	2006 52 weeks £m	2005 53 weeks £m
Tax charged in the income statement		
Current tax expense:		
UK corporation tax	**49**	46
Amounts overprovided in previous years	**(33)**	(2)
Total current tax	**16**	44
Deferred tax:		
Origination and reversal of temporary differences	**18**	16
Adjustments in respect of prior years	**(9)**	–
Total deferred tax (note 21)	**9**	16
Total tax charged in the income statement	**25**	60
Tax on items recognised directly in equity		
Unrealised gains due to previous revaluations	**(4)**	20
Actuarial (gains)/losses on pension schemes	**(7)**	2
Share-based payments	**14**	4
Derivative financial instruments	**(1)**	8
Total tax credit on items recognised directly in equity	**2**	34

Reconciliation of the total tax charge

The tax expense in the income statement for the year is lower (2005 higher) than the standard rate of corporation tax in the UK of 30% (2005 30%).

The differences are reconciled below:

Profit on ordinary activities before tax	**220**	190
Accounting profit multiplied by the UK standard rate of corporation tax of 30% (2005 30%)	**66**	57
Expenses not deductible for tax purposes	**3**	7
Non taxable income	**(2)**	(2)
Adjustments in respect of prior years	**(42)**	(2)
Total tax charge reported in the income statement	**25**	60

11. Dividends

	2006 52 weeks £m	2005 53 weeks £m
Amounts paid and recognised in equity		
In respect of the 52 weeks ended 25 September 2004		
– Final dividend of 6.65p per share	–	34
In respect of the 53 weeks ended 1 October 2005		
– Interim dividend of 3.20p per share	–	16
– Final dividend of 7.55p per share	**38**	–
In respect of the 52 weeks ended 30 September 2006		
– Interim dividend of 3.65p per share	**18**	–
	56	50
Proposed final dividend of 8.60p (2005 7.55p) per share	**35**	38

The proposed final dividend for the 52 weeks ended 30 September 2006 was approved by the Board on 28 November 2006. This did not qualify for recognition in the financial statements at 30 September 2006 as it had not been approved by the shareholders at that date.

A special interim dividend for the 52 weeks ending 29 September 2007 of £1 per ordinary share was paid to shareholders on 25 October 2006 at a total cost of £486m. In connection with the Special Dividend, a share consolidation was approved by shareholders at an Extraordinary General Meeting held on 17 October 2006 and then implemented on 18 October 2006. The share consolidation resulted in the issue of 34 new ordinary shares of $8\frac{13}{24}$p each for every 41 existing ordinary shares.

12. Earnings per share

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

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

Earnings per ordinary share amounts are presented before exceptional items (see note 8) in order to allow a better understanding of the underlying trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 30 September 2006:			
Profit for the period	**195**	**39.7p**	**38.8p**
Exceptional items, net of tax	**(51)**	**(10.4)p**	**(10.2)p**
Profit before exceptional items	**144**	**29.3p**	**28.6p**
53 weeks ended 1 October 2005:			
Profit for the period	130	25.4p	25.1p
Exceptional items, net of tax	3	0.6p	0.6p
Profit before exceptional items	133	26.0p	25.7p

12. Earnings per share continued

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

	2006 52 weeks m	2005 53 weeks m
For basic EPS calculations	**491**	511
Effect of dilutive potential ordinary shares:		
Contingently issuable shares	**7**	3
Other share options	**5**	4
For diluted EPS calculations	**503**	518

At 30 September 2006, no (2005 3,453,820) contingently issuable shares and 965,822 (2005 1,609,010) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are antidilutive for the periods presented.

13. Goodwill and other intangible assets

	Computer software £m	Goodwill £m	Total £m
Cost			
At 26 September 2004	29	10	39
Additions	2	–	2
Disposals	(3)	–	(3)
At 1 October 2005	28	10	38
Additions	3	–	3
Disposals	(4)	–	(4)
At 30 September 2006	**27**	**10**	**37**
Accumulated amortisation			
At 26 September 2004	10	–	10
Provided during the year	5	–	5
Disposals	(3)	–	(3)
At 1 October 2005	12	–	12
Provided during the year	7	–	7
Disposals	(4)	–	(4)
At 30 September 2006	**15**	**–**	**15**
Net book value			
At 30 September 2006	**12**	**10**	**22**
At 1 October 2005	16	10	26

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

Impairment tests for goodwill

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

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

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

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

13. Goodwill and other intangible assets continued

The post-tax discount rate used to calculate value in use is 6% (2005 6%). This discount rate is derived from the Group's weighted average cost of capital, adjusted for the effects of taxation and for specific risks relating to the German business.

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

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

Impairment reviews were performed on 26 September 2004, 1 October 2005 and 30 September 2006 by comparing the carrying value of the business to which goodwill relates with the recoverable amount. Management determined that there has been no impairment.

14. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost			
At 26 September 2004	2,820	892	3,712
Additions	76	91	167
Disposals	(34)	(57)	(91)
Reclassification	5	(5)	–
Classified as held for sale	(7)	(3)	(10)
At 1 October 2005	2,860	918	3,778
Additions**	540	144	684
Disposals*	(57)	(135)	(192)
Classified as held for sale	(76)	(21)	(97)
At 30 September 2006	**3,267**	**906**	**4,173**
Depreciation			
At 26 September 2004	65	202	267
Provided during the year	18	92	110
Disposals	–	(45)	(45)
Classified as held for sale	–	(1)	(1)
At 1 October 2005	83	248	331
Provided during the year	21	93	114
Disposals*	(4)	(122)	(126)
Fair value adjustment on classification of non-current assets held for sale	2	1	3
Classified as held for sale	(5)	(11)	(16)
At 30 September 2006	**97**	**209**	**306**
Net book value			
At 30 September 2006	**3,170**	**697**	**3,867**
At 1 October 2005	2,777	670	3,447
At 26 September 2004	2,755	690	3,445

*Includes assets which are fully depreciated and have been removed from the fixed asset ledger.
**See page 63.

14. Property, plant and equipment continued

Properties

Properties comprising land, buildings and certain fixtures, fittings and equipment, are included above at cost, less depreciation as required.

The most recent valuation of properties reflected in the carrying value of property, plant and equipment 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, 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.

The deemed cost carrying value of the Group's property, plant and equipment reflects the 1999 revaluation which at 30 September 2006 amounted to £328m (2005 £335m). In addition, in 1996, a group restructuring by Six Continents resulted in the transfer at book value of certain property, plant and equipment to a subsidiary that subsequently became part of the Mitchells & Butlers group. The book value included the effect of revaluations undertaken prior to 1996. Accordingly, the deemed cost carrying value of the Group's property, plant and equipment reflects those revaluations, which at 30 September 2006 amounted to £374m (2005 £386m).

Included within property, plant and equipment are assets with a net book value of £3,273m (2005 £3,299m), which are pledged as security for the securitised debt and over which there are certain restrictions on title.

**Additions

On 21 July 2006 the Group acquired 239 pub restaurant sites from Whitbread PLC for consideration of £497m plus acquisition costs of £10m, totalling £507m. The fair value of the sites acquired has been accounted for in accordance with IFRS 3 'Business Combinations' and is included within property, plant and equipment additions of £684m above. The Group is unable to provide details of the carrying value of the property, plant and equipment acquired, prior to its acquisition, as the vendor has not provided access to this information.

	Total fair value £m
Total consideration (including acquisition costs)	507
Comprising:	
Property, plant and equipment acquired	504
Stock and cash	3
	507

Turnover of £34m and operating profit of £6m in respect of these pub restaurant sites is included within the income statement, for the period since acquisition. The Group does not possess sufficient information relating to the revenue and profit of the acquired sites to disclose the combined revenue and profit for the Mitchells & Butlers Group and the sites, as if they were owned from the beginning of the financial period.

Finance leases

The net book value of fixtures, fittings and equipment includes £2m (2005 £4m) in respect of assets held under finance leases. The assets are pledged as security for the finance lease liabilities.

Net book value

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

	2006 £m	2005 £m
Freehold	**2,799**	2,461
Leasehold:		
– unexpired term of more than 50 years	**222**	178
– unexpired term of 50 years or less	**149**	138
	3,170	2,777

In addition to the above, premiums paid on acquiring a new lease are classified in the balance sheet as prepayments of rentals under the leases. At 30 September 2006 an amount of £14m (2005 £17m) was included in the balance sheet.

15. Inventories

	2006 £m	2005 £m
Work in progress*	**18**	17
Goods held for resale	**24**	22
	42	39

*Work in progress is in respect of property developments.

16. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**1**	2
Other receivables	**54**	38
Prepayments	**26**	37
	81	77

All amounts fall due within one year.

Trade and other receivables are non-interest bearing.

17. Non-current assets held for sale and assets of the disposal group

	Disposal group		Assets held for sale		Total	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Pubs & Bars						
Land and buildings	**70**	–	**4**	1	**74**	1
Fixtures, fittings and equipment	**10**	–	**1**	–	**11**	–
	80	–	**5**	1	**85**	1
Restaurants						
Land and buildings	**–**	–	**2**	6	**2**	6
Fixtures, fittings and equipment	**–**	–	**1**	2	**1**	2
	–	–	**3**	8	**3**	8
Total	**80**	–	**8**	9	**88**	9
Fair value adjustments on classification as non-current assets held for sale	**–**	–	**3**	–	**3**	–

Non-current assets held for sale and the disposal group comprise certain operating properties which have been approved for sale, such that the carrying amount is expected to be recovered through a sale, rather than through continuing use. Sales are expected within 12 months from the date of classification. The disposal group held for sale represents assets which were sold to Trust Inns Ltd on 5 October 2006 in a single transaction. Further information is contained within note 32 'Events after the balance sheet date'.

The adjustment on classification as non-current assets held for sale forms part of the profit arising on property-related items in the income statement. The carrying values included within the disposal group and assets held for sale categories above, are stated after this adjustment. The charge against income is shown as 'Fair value adjustments on classification of non-current assets held for sale' in note 8 'Exceptional items'.

18. Trade and other payables

	2006 £m	2005 £m
Trade payables	**70**	67
Other taxation and social security	**53**	42
Accrued charges	**82**	84
Other payables	**46**	27
	251	220

Trade payables and other payables are non-interest bearing.

19. Borrowings

	2006			2005		
Group	Current liabilities £m	Non-current liabilities £m	Total £m	Current liabilities £m	Non-current liabilities £m	Total £m
Securitised debt*	**39**	**2,374**	**2,413**	36	1,772	1,808
Loan notes**	**2**	**–**	**2**	2	–	2
Finance leases (note 30)	**–**	**1**	**1**	1	1	2
Total borrowings	**41**	**2,375**	**2,416**	39	1,773	1,812

*This debt is secured as explained on page 63.
**These loan notes are partially secured by a bank deposit. The effective interest rate is 4.68%.

	Group 2006 £m	Group 2005 £m
Analysis by year of repayment†		
Due within one year or on demand	**41**	39
Due between one and two years	**40**	38
Due between two and five years	**545**	128
Due after five years	**1,790**	1,607
Total borrowings	**2,416**	1,812

†The earlier of the contractual repricing date or scheduled amortisation of the financial instrument.

Securitised debt

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

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

Repayment of principal in respect of securitised debt

The Class A3 notes were issued in principal amount of $418.75m. The Class A3N notes were subsequently issued as a replacement for the A3 notes in principal amount of $418.75m. 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 'Repayment of principal in respect of securitised debt' in the cash flow statement of £460m, includes £223m which represents the sterling equivalent of the $418.75m A3 loan note repaid, translated at the spot rate on the date of the repayment – 15 September 2006. Also included in the £460m is an amount of £200m representing the repayment of the A1 loan note and £37m in respect of the scheduled repayment of principal of the A2 and B1 loan notes.

19. **Borrowings** continued

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

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

At 1 October 2005 the loan notes consisted of six tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding at 1 October 2005 £m	Expected WAL**
A1	200	Floating	2011 to 2028	6.13*	200	5 years
A2	550	Fixed-5.57%	2003 to 2028	6.01	507	11 years
A3	250†	Floating	2011 to 2028	6.21*	250†	5 years
B1	350	Fixed-5.97%	2003 to 2023	6.12	330	9 years
B2	350	Fixed-6.01%	2015 to 2028	6.12	350	19 years
C	200	Fixed-6.47%	2029 to 2030	6.57	200	24 years
	1,900				1,837	

†Includes the fair value impact of £26m (2005 £13m) in respect of the currency swaps.
*After the effect of interest rate swaps.
**The expected remaining weighted average life ('WAL') is based on the amortisation profile of the individual note tranches and assumes refinancing of the notes on the margin step-up dates. The margin step-up dates as at 30 September 2006 are set out below.

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

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

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

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

19. **Borrowings** continued

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 30 September 2006, Mitchells & Butlers Retail Limited had cash and cash equivalents of £73m (2005 £119m) which were governed by the covenants associated with the securitisation. Of this amount £8m (2005 £16m), 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 30 September 2006 is analysed as follows:

	2006 £m	2005 £m
Principal outstanding at beginning of period	**1,824**	1,854
Further loan note issue	**1,078**	–
Principal repaid during the period	**(460)**	(35)
Exchange on translation of dollar loan notes	**(13)**	5
Principal outstanding at end of period	**2,429**	1,824
Deferred issue costs	**(21)**	(20)
Accrued interest	**5**	4
Carrying value at end of period	**2,413**	1,808

At 30 September 2006 the Group had the following undrawn committed borrowing facilities

	Group	
Undrawn committed borrowing facilities	**2006 £m**	2005 £m
Unutilised facilities expire:		
Within one year	**295**	220
Between two and five years	**300**	60
	595	280

20. Financial instruments

An explanation of the Group's financial instrument risk management objectives, policies and strategies are set out in the discussion of Treasury policies on pages 12 and 15 in the Operating and financial review. Derivative financial instruments are not used for trading or speculative purposes.

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

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

Interest rate risk
The Group uses a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivatives. The Group minimises the volatility in financial statements through the adoption of hedge accounting provisions where appropriate.

Foreign currency risk
The Group's foreign exchange exposure primarily results from the issue of US$418.75m of Class A3/A3N floating rate notes which form part of the securitised debt (see note 19). At issuance of the notes the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US$ principal and the interest elements of the notes.

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

20. Financial instruments continued

Credit risk

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

Cash flow hedging

At 30 September 2006, the Group held 10 (2005 2) interest rate swap contracts with a nominal value of £1,105m (2005 £450m), designated as a hedge of the cash flow interest rate risk of £1,105m (2005 £450m) of the Group's floating rate borrowings, comprising the A1N (2005 A1), A3N (2005 A3), A4, AB, C2 and D1 loan notes.

The cash flows occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8938% (2005 5.1805%). The contract maturity dates match those of the hedged item.

At 30 September 2006 the Group held 1 (2005 1) cross currency interest rate swap contract, with a nominal value of £250m (2005 £250m), designated as a hedge of the cash flow interest rate and currency risk of £250m (2005 £250m) of the Group's A3N (2005 A3) floating rate $418.75m borrowings.

The cash flows occur quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a fixed rate, in sterling, of 5.4445% (2005 5.6795%).

Changes in cash flow hedge fair values are recognised directly in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges have been assessed as being highly effective during the financial period and are expected to remain highly effective over the remaining contract lives. The interest rate and cross currency interest rate swaps are held on the balance sheet at a fair value liability of £62m (2005 £48m).

During the period a loss of £22m (2005 £28m loss) on cash flow hedges was recognised directly in equity. A loss of £16m (2005 £3m loss) was removed from equity and included in the Group income statement for the period.

Interest rate risk profile

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

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
30 September 2006							
Fixed rate:							
Securitised debt	**(39)**	**(39)**	**(42)**	**(45)**	**(458)**	**(1,790)**	**(2,413)**
Finance leases	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Floating rate:							
Cash and cash equivalents	**372**	**–**	**–**	**–**	**–**	**–**	**372**
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loan notes	**(2)**	**–**	**–**	**–**	**–**	**–**	**(2)**
1 October 2005							
Fixed rate:							
Securitised debt	(36)	(37)	(41)	(42)	(45)	(1,607)	(1,808)
Finance leases	(1)	(1)	–	–	–	–	(2)
Floating rate:							
Cash and cash equivalents	196	–	–	–	–	–	196
Other financial assets	1	–	–	–	–	–	1
Loan notes	(2)	–	–	–	–	–	(2)

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

20. Financial instruments continued

Fair values

Fair values of financial instruments are disclosed below:

	Book value 2006 £m	Fair value 2006 £m	Book value 2005 £m	Fair value 2005 £m
Primary financial instruments held or issued to finance the Group's operations:				
Cash and cash equivalents	**375**	**375**	199	199
Other financial assets	**–**	**–**	1	1
Securitised debt (excluding interest rate and currency swaps)	**(2,413)**	**(2,542)**	(1,808)	(1,957)
Loan notes	**(2)**	**(2)**	(2)	(2)
Finance leases	**(1)**	**(1)**	(2)	(2)
Provisions	**(3)**	**(3)**	(4)	(4)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps	**(33)**	**(33)**	(31)	(31)
Currency swaps*	**(29)**	**(29)**	(17)	(17)
	(2,106)	**(2,235)**	(1,664)	(1,813)

*Includes £26m (2005 £13m) relating to currency movements on the retranslation of the $418.75m A3N loan note, included within net debt (see note 27).

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

21. Deferred tax

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

	2006 £m	2005 £m
Deferred tax liability:		
Accelerated capital allowances	**145**	141
Rolled over and held over gains	**195**	197
Unrealised gains due to previous revaluations	**49**	45
Depreciated non-qualifying assets	**29**	32
Short-term temporary differences	**–**	2
Total deferred tax liability	**418**	417
Deferred tax asset:		
Retirement benefit obligations (note 7)	**32**	50
Share-based payments	**24**	10
Derivative financial instruments	**9**	11
Short-term temporary differences	**3**	10
Total deferred tax asset	**68**	81
Deferred tax in the income statement:		
Accelerated capital allowances	**4**	6
Retirement benefit obligations	**10**	12
Rolled over and held over gains	**(2)**	3
Share-based payments	**(4)**	(3)
Short-term temporary differences	**3**	(1)
Depreciated non-qualifying assets	**(3)**	(1)
Derivative financial instruments	**1**	–
Total deferred tax charge in the income statement	**9**	16

Unrecognised tax losses

At the balance sheet date the Group has unused losses of £17m (2005 £15m) available for offset against future profits.

A deferred tax asset has not been recognised on tax losses with a value of £7m (2005 £6m) because it is not certain that future taxable profits will be available against which the Group can utilise the benefit. These tax losses can be carried forward indefinitely.

Tax consequences arising from the payment of dividends

There are no tax consequences for the Group attaching to the payment of dividends to its shareholders.

22. Provisions

Group	Property leases £m
At 2 October 2005	4
Utilised	(1)
At 30 September 2006	**3**

Onerous property provisions comprise future rents payable net of rents receivable on onerous and vacant property leases. The leases extend for periods of up to eight years (2005 nine).

23. Called up share capital

	2006		2005	
	Number of shares	**£m**	Number of shares	£m
Authorised				
Redeemable preference shares of £50,000 each	**–**	**–**	1	–
Redeemable deferred shares of 1p each	**–**	**–**	2	–
Ordinary shares of 7¹⁄₁₂p each	**1,424,304,003**	**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 7¹⁄₁₂p each:				
At start of the financial period	**500,438,040**	**35**	523,792,544	37
Repurchase and cancellation	**(13,527,234)**	**(1)**	(24,236,000)	(2)
Share options exercised	–	–	881,496	–
At end of the financial period	**486,910,806**	**34**	500,438,040	35

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

At 1 October 2005 the authorised share capital included 1 redeemable £50,000 preference share and 2 redeemable deferred shares of 1p each. These were converted to 7¹⁄₁₂p ordinary shares by special resolution of the shareholders on 2 February 2006.

Details of options granted since separation, under the Group's share schemes, are contained in note 6.

Details of the repurchase and cancellation of shares is provided in note 25.

24. 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 30 September 2006, the trustees, Hill Samuel ESOP Trustee Limited, were holding 910,578 (2005 836,811) shares in the Company. Of these shares, 715,583 (2005 809,503) have been conditionally gifted to employees and 163,716 have been unconditionally 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 30 September 2006, the trustees, Mourant & Co Trustees Limited, were holding 1,299,046 (2005 1,303,068) shares in the Company. Of these shares, none (2005 179,402) have been conditionally gifted to employees and none (2005 822,859) are under option.

25. Reconciliation of movements in equity

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 1 October 2005	35	14	2	(12)	(24)	6	1,162	1,183
Repurchase and cancellation	(1)	–	1	–	–	–	(58)	(58)
Purchase of own shares by employee share trusts	–	–	–	(22)	–	–	–	(22)
Release of own shares by employee share trusts	–	–	–	22	–	–	(10)	12
Credit in respect of share-based payments	–	–	–	–	–	–	8	8
Total recognised income and expense	–	–	–	–	(6)	–	224	218
Dividends	–	–	–	–	–	–	(56)	(56)
At 30 September 2006	**34**	**14**	**3**	**(12)**	**(30)**	**6**	**1,270**	**1,285**

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 26 September 2004	37	12	–	(11)	(7)	6	1,143	1,180
Issue of ordinary shares	–	2	–	–	–	–	–	2
Repurchase and cancellation	(2)	–	2	–	–	–	(83)	(83)
Purchase of own shares by employee share trusts	–	–	–	(18)	–	–	–	(18)
Release of own shares by employee share trusts	–	–	–	17	–	–	(3)	14
Credit in respect of share-based payments	–	–	–	–	–	–	6	6
Total recognised income and expense	–	–	–	–	(17)	–	149	132
Dividends	–	–	–	–	–	–	(50)	(50)
At 1 October 2005	35	14	2	(12)	(24)	6	1,162	1,183

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under UK GAAP of £234m at 30 September 2006 (2005 £724m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 19).

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares.

Capital redemption reserve
The capital redemption reserve movement arose on the repurchase and cancellation by the Company of 13,527,234 (2005 24,236,000) ordinary shares during the financial period at a cost of £58m (2005 £83m), including expenses. The nominal value of the share capital cancelled of £1m (2005 £2m) was transferred to the capital redemption reserve.

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

During the financial period, 1,589,880 shares were released to employees on the exercise of share options for a total consideration of £4m, but no treasury shares were acquired. The 518,018 shares held in treasury at 30 September 2006 had a market value of £3.1m (1 October 2005 2,107,898 shares held had a market value of £7.7m). The aggregate nominal value of the treasury shares held at 30 September 2006 was £37,000.

25. Reconciliation of movements in equity continued

During the financial period, the employee share trusts acquired 4,351,933 shares at a cost of £22m and released 4,282,188 shares to employees on the exercise of options and other share awards for a total consideration of £8m. The 2,209,624 shares held by the trusts at 30 September 2006 had a market value of £13.0m (1 October 2005 2,139,879 shares held had a market value of £7.8m). Further details regarding the employee share trusts are given in note 24.

Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

Translation reserve
The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign subsidiaries.

Goodwill
Goodwill eliminated against reserves at 30 September 2006 was £50m (2005 £50m). This arose in respect of acquisitions completed prior to 30 September 1998.

26. Cash flow from operations

	2006 52 weeks £m	2005 53 weeks £m
Operating profit	325	292
Less: operating exceptional items	(16)	3
Operating profit before exceptional items	309	295
Add back:		
Depreciation of property, plant and equipment	114	110
Amortisation of intangibles (computer software)	7	5
Amortisation of lease premiums	–	1
Cost charged in respect of share remuneration	8	6
Defined benefit pension cost less regular cash contributions	3	1
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	441	418
Movements in working capital and pension contributions:		
(Increase)/decrease in inventories	(3)	4
Decrease/(increase) in trade and other receivables	7	(2)
Increase in trade and other payables	6	12
Movement in provisions	(1)	2
Additional pension contributions (note 7)	(20)	(30)
Cash flow from operations before exceptional items	430	404
Exceptional licensing costs paid	–	(4)
Cash flow from operations	430	400

27. Analysis of net debt

	2006 £m	2005 £m
Cash and cash equivalents (see below)	**375**	199
Cash deposits with a maturity of greater than three months	**–**	1
Securitised debt (note 19)	**(2,413)**	(1,808)
Derivatives hedging balance sheet debt* (note 20)	**(26)**	(13)
Loan notes (note 19)	**(2)**	(2)
Finance leases (note 19)	**(1)**	(2)
	(2,067)	(1,625)

*Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US dollar denominated loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and in hand of £260m (2005 £129m) plus cash deposits with an original maturity of three months or less of £115m (2005 £70m).

28. Movement in net debt

	2006 52 weeks £m	2005 53 weeks £m
Net increase/(decrease) in cash and cash equivalents	**176**	(6)
Add back cash flows in respect of other components of net debt:		
Proceeds of cash deposits with a maturity of greater than three months	**(1)**	(19)
Repayment of principal in respect of other loans	**1**	–
Repayment of principal in respect of securitised debt	**460**	35
Proceeds of issue of securitised debt	**(1,078)**	–
(Increase)/decrease in net debt arising from cash flows ('Net cash flow' per note 29)	**(442)**	10
Non-cash movements	**–**	(3)
(Increase)/decrease in net debt	**(442)**	7
Opening net debt	**(1,625)**	(1,632)
Closing net debt	**(2,067)**	(1,625)

29. Net cash flow

	2006 52 weeks £m	2005 53 weeks £m
Operating profit before exceptional items	**309**	295
Depreciation and amortisation	**121**	116
EBITDA before exceptional items*	**430**	411
Working capital movement	**9**	16
Other non-cash items	**11**	7
Additional pension contributions (note 7)	**(20)**	(30)
Cash flow from operations before exceptional items	**430**	404
Net capital expenditure**	**(583)**	(110)
Cash flow from operations before exceptional items and after net capital expenditure	**(153)**	294
Exceptional licensing costs paid	–	(4)
Cash flow from operations after net capital expenditure	**(153)**	290
Interest paid	**(115)**	(113)
Interest received	**8**	11
Tax paid	**(48)**	(43)
Dividends paid	**(56)**	(50)
Issue of ordinary share capital	**–**	2
Purchase of own shares	**(76)**	(101)
Proceeds on release of own shares held	**12**	14
Defence costs (note 8)	**(4)**	–
Expenditure associated with refinancing	**(10)**	–
Net cash flow (note 28)	**(442)**	10

*Earnings before interest, tax, depreciation, amortisation and exceptional items.
**Comprises purchases of property, plant and equipment and intangibles less proceeds from the sale of property, plant and equipment.

30. Financial commitments

Leases

The vast majority of the Group's leases are industry standard UK pub or commercial property leases which provide for periodic rent reviews to open market value and enjoy statutory rights to renewal on expiry. They generally do not contain conditions relating to rent escalation, rights to purchase, concessions, residual values or other material provisions of an unusual nature.

Operating lease commitments – Group as lessee

Total future minimum lease payments under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Due within one year	**49**	48
Between two and five years	**159**	159
After five years	**601**	612
	809	819

The future minimum rentals expected to be received under non-cancellable subleases as at 30 September 2006 amounted to £27m (2005 £29m).

Operating lease receivables – Group as lessor

Total future minimum lease receipts under non-cancellable operating leases are as follows:

	2006 £m	2005 £m
Due within one year	**7**	7
Between two and five years	**21**	22
After five years	**36**	40
	64	69

30. Financial commitments continued

Lease income recognised in the year was as follows:

	2006 52 weeks £m	2005 53 weeks £m
Standard lease income	**10**	9

Finance lease commitments – Group as lessee
Total future minimum lease payments due under finance leases are as follows:

	2006 £m	2005 £m
Due within one year	**–**	1
Between two and five years	**1**	1
	1	2

Due to the timing of the expiry of the finance lease commitments, there is no material difference between the total future minimum lease payments and their present value.

Finance leases relate to various items of fixtures, fittings and equipment (see note 14).

Capital commitments

	2006 £m	2005 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the financial statements	**28**	28

31. Contingent liabilities

The Group has given indemnities in respect of the disposal of certain companies previously within the Six Continents group. It is the view of the Directors that such indemnities are not expected to result in financial loss to the Group.

32. Events after the balance sheet date

On 5 October 2006 the Group announced that it had exchanged contracts for the disposal of 102 pubs to Trust Inns Ltd, a private company, for £101m.

On 18 October 2006 the share capital of the Company was consolidated in the ratio of 34 new ordinary shares of $8\frac{13}{24}$p for every 41 existing ordinary shares of $7\frac{1}{12}$p.

On 25 October 2006 the Group paid a Special Dividend of £486m to shareholders in respect of the 52 weeks ended 29 September 2007.

33. Related party disclosures

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. As such, there were no transactions with related parties requiring disclosure under IAS 24 'Related Party Disclosures' during either the current year or the previous year.

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

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

*Shares held directly by Mitchells & Butlers plc.

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

Compensation of key management personnel of the Group:

	2006 £m	2005 £m
Short-term employee benefits	**3**	3
Post-employment benefits	**2**	2
Share-based payments	**4**	3
	9	8

Only members of the Board of Directors of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board which has responsibility for planning, directing and controlling the activities of the Group.

34. Explanation of transition to IFRS

For all periods up to and including the 53 weeks ended 1 October 2005 the Group prepared its financial statements in accordance with United Kingdom generally accepted accounting practice ('UK GAAP'). This is the first year that the Group has presented its financial statements under IFRS.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the 52 weeks ended 30 September 2006 and the comparative information presented in these financial statements for the 53 weeks ended 1 October 2005. In preparing these financial statements, the Group has started from an opening balance sheet as at 26 September 2004, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS.

This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 26 September 2004 and its previously published UK GAAP financial statements for the 53 weeks ended 1 October 2005.

IFRS 1 first-time adoption choices

IFRS 1 'First-time Adoption of International Financial Reporting Standards' sets out the rules that the Group must follow when it adopts IFRS for the first time. Under this standard, the Group is required to establish its IFRS accounting policies as at 2 October 2005 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 26 September 2004.

IFRS 1 provides a number of optional exceptions to this general principle. Set out below is a description of the significant first time adoption choices made by the Group.

Business combinations (IFRS 3)
The Group has elected to apply IFRS 3 'Business Combinations' prospectively from the date of transition to IFRS rather than to restate previous business combinations.

Valuation of properties (IAS 16)
Under IAS 16 'Property, Plant and Equipment' an entity must adopt either a cost or valuation model for valuing its property, plant and equipment. Consistent with its approach under UK GAAP the Group has decided to continue with a cost model and has elected to take the exemption available under IFRS 1 to use the previous revaluations of its properties as deemed cost at the transition date.

Share-based payments (IFRS 2)
The Group has elected to apply IFRS 2 'Share-based Payment' only to those equity-settled awards that were granted after 7 November 2002 but not vested at 1 January 2005.

Pensions (IAS 19)
Group has elected to recognise all cumulative actuarial gains and losses in relation to its defined benefit pension arrangements at the date of transition. Actuarial gains and losses arising after the transition date are recognised in full in the period in which they occur in the statement of recognised income and expense in accordance with the Amendment to IAS 19. These accounting treatments mirror those of FRS 17 'Retirement Benefits' which the Group adopted for 2004/05 under UK GAAP.

Financial instruments (IAS 32/39)
The Group had appropriate hedging documentation in place at the date of transition to IFRS and has therefore opted to restate its results for the 53 weeks ended 1 October 2005 under IAS 32 and IAS 39.

Description of IFRS adjustments

The following commentary describes the differences between IFRS and UK GAAP that have a material impact on the income or net assets of the Group.

Share-based payments (IFRS 2)
IFRS 2 requires all share options and employee share awards to be expensed in the income statement with the expense measured at fair value at date of grant and generally charged over the vesting period of the scheme. Under UK GAAP, SAYE schemes were exempt from a charge and the expense recognised in respect of other schemes was based on the intrinsic value at date of grant and charged over the performance period of the scheme.

The Group has used a combination of Black-Scholes, Binomial and Monte Carlo simulation models to calculate fair values depending on the conditions attached to the particular share scheme.

The additional pre-tax charge arising from the adoption of IFRS 2 is £2m for the 53 weeks ended 1 October 2005.

Pensions (IAS 19)
The Group will account for pensions under IFRS in the same way as that already applied under UK GAAP (FRS 17). In particular, actuarial gains and losses are recognised in full in the statement of recognised income and expense. There is, however, a small difference in the valuation of pension scheme assets which are valued at bid price under IFRS rather than mid-market price under UK GAAP.

The impact of this difference is to increase the pension deficit recorded under IAS 19 by £3m at both 1 October 2005 and 26 September 2004 with no material effect on the income statement for the 53 weeks ended 1 October 2005.

Under IFRS, the pension deficit is shown on the balance sheet gross of deferred tax. This is a change in presentation from UK GAAP which required the liability to be shown net of the related deferred tax asset.

Dividends (IAS 10)
Under IAS 10 'Events after the Balance Sheet Date', dividends declared after the balance sheet date are not recognised as a liability.

The effect of this change is to increase net assets by £37m at 1 October 2005 and £34m at 26 September 2004.

Holiday pay accrual (IAS 19)
As a result of the specific guidance in IAS 19, the Group has recognised an additional accrual for holiday pay.

The impact is to reduce net assets by £6m at both 1 October 2005 and 26 September 2004 with no material effect on the income statement for the 53 weeks to 1 October 2005.

Property, plant and equipment (IAS 16)
Under IFRS, the Group will cease to capitalise certain low value short lived assets.

34. Explanation of transition to IFRS continued

The effect is to reduce net assets by £24m at both 1 October 2005 and 26 September 2004 with no material effect on the income statement for the 53 weeks to 1 October 2005.

Financial instruments (IAS 32, 39 and 21)
IAS 39 'Financial Instruments: Recognition and Measurement' requires all derivative financial instruments to be included on the balance sheet at fair value and contains provisions that restrict the use of hedge accounting. If hedge accounting cannot be applied, any changes in fair value are reported in the income statement.

The Group uses interest rate and currency swaps to fix the interest rate payable on the floating rate tranches of its secured loan notes. These derivatives have qualified for cash flow hedge accounting since IFRS transition so that changes in fair value are recognised in equity in a 'hedging reserve' until such point as the transactions which are being hedged are reflected in the income statement. As these hedging relationships are highly effective, cash flow hedge accounting has avoided earnings volatility in the 53 weeks to 1 October 2005 and is expected to do so going forward. However, the value of the Group's net assets at each reporting date is impacted by the fair value of the derivatives recorded in the hedging reserve. As a consequence, the Group's net assets have been reduced by £35m and £10m at 1 October 2005 and 26 September 2004, respectively.

Under IAS 21 'The Effects of Changes in Foreign Exchange Rates' the Group's US dollar denominated secured loan notes are translated at period end exchange rates with exchange differences passing through the income statement. However, as the Group has been able to apply hedge accounting, there is an equal and opposite transfer from the hedging reserve that removes the earnings volatility that would otherwise result. Under UK GAAP, the US dollar denominated secured loan notes were translated at the contracted exchange rates implicit in the underlying hedging arrangements.

Leases (IAS 17)
The Group holds a number of properties under operating leases. In accordance with IAS 17 'Leases', lease premium payments made on entering into the leases, previously included in fixed assets under UK GAAP, have been reclassified as non-current prepayments and amortised over the life of the lease. Amounts reclassified at 1 October 2005 and 26 September 2004 were £17m and £18m respectively. In the income statement for the 53 weeks ended 1 October 2005, depreciation of £1m has been reclassified as lease amortisation with no overall impact on reported profits. In addition, the revaluation previously attributed to the amount included in fixed assets has been reversed. This has reduced net assets by £3m at both 1 October 2005 and 26 September 2004.

IAS 17 requires that the buildings element of leases on land and buildings is considered separately for the purpose of determining whether the lease is a finance or operating lease. IAS 17 also requires lease incentives to be spread over the full lease term rather than the period to the first rent review. In response to these requirements, the Group has undertaken a review of its leased property portfolio and concluded that no adjustments are required on transition to IFRS.

Computer software (IAS 38)
Computer software, which is not an integral part of a related item of hardware, is required under IFRS to be treated as an intangible asset. Under UK GAAP, all such software was included in tangible fixed assets.

The amounts reclassified to intangible assets are £16m at 1 October 2005 and £19m at 26 September 2004. In the income statement for the 53 weeks ended 1 October 2005, depreciation of £5m has been reclassified as intangibles amortisation with no overall impact on reported profits.

Assets held for sale (IFRS 5)
IFRS 5 requires 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 are no longer depreciated. Under UK GAAP there was no held for sale classification.

IFRS 5 has been adopted prospectively from 26 September 2004 resulting in a balance sheet reclassification of £9m at 1 October 2005. There is no effect on the income statement for the 53 weeks to 1 October 2005.

Deferred tax (IAS 12)
IAS 12 'Income Taxes' requires deferred tax to be provided on temporary differences between the tax base and carrying value of assets and liabilities rather than just taxable timing differences under UK GAAP. As a result, the Group's opening IFRS balance sheet at 26 September 2004 includes an additional deferred tax liability of £242m relating to the revaluation of properties and gains previously rolled over into replacement assets. The equivalent additional liability was £223m at 1 October 2005.

In addition, the tax effects of the other IFRS adjustments have resulted in a reduction in the overall deferred tax liability of £11m at 26 September 2004 and £23m at 1 October 2005.

Goodwill (IFRS 3)
In accordance with IFRS 3 'Business Combinations', goodwill is not amortised but instead tested for impairment on transition to IFRS and annually thereafter, or more frequently if circumstances indicate that impairment may have occurred. As a consequence, the Group's goodwill balance of £10m was tested for impairment at 26 September 2004 and 1 October 2005 and no impairment adjustment was required.

Under UK GAAP, the Group's goodwill was amortised over a 20 year period. The impact of not amortising goodwill was not material for the 53 weeks ended 1 October 2005.

Exceptional items (IAS 1)
IAS 1 'Presentation of Financial Statements' does not contain an equivalent classification for the FRS 3 non-operating exceptional items that were shown below operating profit under UK GAAP. Such items, which do not relate to the underlying business performance of the Group and include profits and losses on the disposal of properties, will now be reported in operating profit, but shown as operating exceptional items. The Group will continue to highlight exceptional

34. Explanation of transition to IFRS continued

items by way of a columnar presentation on the face of the Group income statement. Exceptional items are those items which are separately identified by virtue of their size or incidence to allow a better understanding of the underlying performance of the Group.

Earnings per share (IAS 33)
Whilst the denominator for basic EPS purposes is calculated in the same way as under UK GAAP, the denominator for diluted EPS purposes is different under IFRS due to the treatment of contingently issuable shares and the effects of IFRS 2.

For the 53 weeks ended 1 October 2005, under IFRS, the basic and diluted EPS denominators are 511m shares and 518m shares respectively. Under UK GAAP, the equivalent figures were 511m and 520m shares respectively.

Other reclassifications
In accordance with IAS 21, cumulative foreign exchange movements on the translation of foreign subsidiaries are disclosed separately in a 'translation reserve' within shareholders' equity. The amount reclassified out of retained earnings is £6m at both 1 October 2005 and 26 September 2004.

As noted above, the carrying values of previously revalued assets have been treated as deemed cost on transition to IFRS, in accordance with the provisions of IFRS 1. Accordingly, the Group's revaluation reserve (£335m at 1 October 2005 and £339m at 26 September 2004) has been reclassified to retained earnings.

Reconciliation of Group cash flow statement for the 53 weeks ended 1 October 2005

IAS 7 'Cash flow statements' changes the definition of cash used for the preparation of the cash flow statement. Under IFRS, cash and cash equivalents include cash at bank and other short-term deposits and investments with an original maturity at acquisition of up to three months. Under UK GAAP, cash was restricted to deposits and investments repayable on demand.

This results in a change in presentation of the cash flow information to include these cash equivalents.

	2005 53 weeks £m
Increase in cash as reported under UK GAAP	48
Movement on short-term deposits (cash equivalents under IFRS)	(54)
Net decrease in cash and cash equivalents (per IFRS definition)	(6)
Cash and cash equivalents at 26 September 2004	205
Cash and cash equivalents at 1 October 2005	199

In addition, IAS 7 only allows three classifications of cash flow: operating, investing and financing. Interest and tax cash flows, previously disclosed under separate headings under UK GAAP, are shown within operating activities under IAS 7.

Under IFRS, the Group defines net debt to include the proportion of the fair value of the currency swaps hedging the balance sheet value of the Group's dollar denominated loan notes. This ensures that net debt under IFRS is reported on a consistent basis with UK GAAP.

Reconciliation of Group income statement for the 53 weeks ended 1 October 2005

	Reported under UK GAAP £m	Share-based payment IFRS 2 £m	Derivatives IAS 39 £m	Deferred tax IAS 12 £m	Reclassification £m	Total IFRS adjustments £m	Restated under IFRS £m
Revenue	1,662						1,662
Operating costs before depreciation and amortisation	(1,253)	(2)				(2)	(1,255)
Profit on disposal of properties	–				1	1	1
EBITDA*	409	(2)			1	(1)	408
Depreciation and amortisation	(116)						(116)
Operating profit	293	(2)			1	(1)	292
Profit on disposal of properties	1				(1)	(1)	–
Finance income	11				3	3	14
Finance expense	(116)					–	(116)
Net finance income in respect of pensions	3				(3)	(3)	–
Profit before tax	192	(2)			–	(2)	190
Tax	(59)	1		(2)		(1)	(60)
Profit for the period	133	(1)		(2)	–	(3)	130

*Earnings before interest, tax, depreciation and amortisation.

Group statement of recognised income and expense for the 53 weeks ended 1 October 2005

	Reported under UK GAAP £m	Share-based payment IFRS 2 £m	Derivatives IAS 39 £m	Deferred tax IAS 12 £m	Reclassification £m	Total IFRS adjustments £m	Restated under IFRS £m
Losses on cash flow hedges taken to equity			(28)			(28)	(28)
Actuarial losses on defined benefit pension schemes	(7)						(7)
Tax on items taken directly to equity	2	4	9			13	15
Tax credit relating to indexation on properties				20		20	20
Net income recognised directly in equity	(5)	4	(19)	20		5	–
Transfers							
To the income statement on cash flow hedges	–		3			3	3
Tax on items transferred to equity	–		(1)			(1)	(1)
Profit for the year	133	(1)		(2)		(3)	130
Total recognised income and expense for the period	128	3	(17)	18		4	132

Reconciliation of equity 26 September 2004 (IFRS transition date)

	Reported under UK GAAP £m	Property, plant & equipment IAS 16 £m	Computer software IAS 38 £m	Leases IAS 17 £m	Holiday pay IAS 19 £m	Pensions IAS 19 £m
ASSETS						
Goodwill and other intangible assets	10		19			
Property, plant and equipment	3,509	(24)	(19)	(21)		
Non-current prepayments	–			17		
Total non-current assets	3,519	(24)	–	(4)		
Inventories	43					
Trade and other receivables	82			1		
Other financial assets	144					
Cash and cash equivalents	81					
Total current assets	350			1		
Total assets	3,869	(24)		(3)		
LIABILITIES						
Short-term borrowings	(35)					
Trade and other payables	(232)				(6)	
Current tax payable	(59)					
Total current liabilities	(326)				(6)	
Borrowings	(1,822)					
Derivatives	–					
Pension liabilities	(114)					(3)
Deferred tax liabilities	(182)	3			2	1
Provisions	(2)					
Total non-current liabilities	(2,120)	3			2	(2)
Total liabilities	(2,446)	3			(4)	(2)
NET ASSETS	1,423	(21)	–	(3)	(4)	(2)
EQUITY						
Called up share capital	37					
Share premium account	12					
Capital redemption reserve	–					
Own shares held	(11)					
Hedging reserve	–					
Translation reserve	–					
Revaluation reserve	339			(3)		
Retained earnings	1,046	(21)			(4)	(2)
TOTAL EQUITY	1,423	(21)	–	(3)	(4)	(2)

Reconciliation of equity 26 September 2004 (IFRS transition date)

	Derivatives & borrowings IAS 21/39 £m	Dividend accrual IAS 10 £m	Share-based payment IFRS 2 £m	Deferred tax IAS 12 £m	Other reclassification £m	Total IFRS adjustments £m	Restated under IFRS £m
ASSETS							
Goodwill and other intangible assets						19	29
Property, plant and equipment						(64)	3,445
Non-current prepayments						17	17
Total non-current assets						(28)	3,491
Inventories						–	43
Trade and other receivables						1	83
Other financial assets					(124)	(124)	20
Cash and cash equivalents					124	124	205
Total current assets					–	1	351
Total assets					–	(27)	3,842
LIABILITIES							
Short-term borrowings						–	(35)
Trade and other payables		34				28	(204)
Current tax payable						–	(59)
Total current liabilities		34				28	(298)
Borrowings	18					18	(1,804)
Derivatives	(28)					(28)	(28)
Pension liabilities					(59)	(62)	(176)
Deferred tax liabilities	3		2	(242)	59	(172)	(354)
Provisions						–	(2)
Total non-current liabilities	(7)		2	(242)	–	(244)	(2,364)
Total liabilities	(7)	34	2	(242)	–	(216)	(2,662)
NET ASSETS	(7)	34	2	(242)	–	(243)	1,180
EQUITY							
Called up share capital						–	37
Share premium account						–	12
Capital redemption reserve						–	–
Own shares held						–	(11)
Hedging reserve	(7)					(7)	(7)
Translation reserve					6	6	6
Revaluation reserve					(336)	(339)	–
Retained earnings		34	2	(242)	330	97	1,143
TOTAL EQUITY	(7)	34	2	(242)	–	(243)	1,180

Reconciliation of equity 1 October 2005 (date of last UK GAAP financial statements)

	Reported under UK GAAP £m	Property, plant & equipment IAS 16 £m	Assets held for sale IFRS 5 £m	Computer software IAS 38 £m	Leases IAS 17 £m	Holiday pay IAS 19 £m	Pensions IAS 19 £m
ASSETS							
Goodwill and other intangible assets	10			16			
Property, plant and equipment	3,516	(24)	(9)	(16)	(20)		
Non-current prepayments					16		
Total non-current assets	3,526	(24)	(9)		(4)		
Inventories	39						
Trade and other receivables	76				1		
Other financial assets	71						
Cash and cash equivalents	129						
Total current assets	315				1		
Non-current assets held for sale			9				
Total assets	3,841	(24)			(3)		
LIABILITIES							
Short-term borrowings	(39)						
Trade and other payables	(251)					(6)	
Current tax payable	(60)						
Total current liabilities	(350)					(6)	
Borrowings	(1,786)						
Derivatives	–						
Pension liabilities	(99)						(3)
Deferred tax liabilities	(185)	3	(1)			2	1
Provisions	(4)						
Total non-current liabilities	(2,074)	3	(1)			2	(2)
Total liabilities	(2,424)	3	(1)			(4)	(2)
NET ASSETS	1,417	(21)	(1)	–	(3)	(4)	(2)
EQUITY							
Called up share capital	35						
Share premium account	14						
Capital redemption reserve	2						
Own shares held	(12)						
Hedging reserve	–						
Translation reserve	–						
Revaluation reserve	335				(3)		
Retained earnings	1,043	(21)	(1)			(4)	(2)
TOTAL EQUITY	1,417	(21)	(1)	–	(3)	(4)	(2)

Reconciliation of equity 1 October 2005 (date of last UK GAAP financial statements)

	Derivatives & borrowings IAS 21/39 £m	Dividend accrual IAS 10 £m	Share-based payment IFRS 2 £m	Deferred tax IAS 12 £m	Other reclassification £m	Total IFRS adjustments £m	Restated under IFRS £m
ASSETS							
Goodwill and other intangible assets						16	26
Property, plant and equipment						(69)	3,447
Non-current prepayments						16	16
Total non-current assets						(37)	3,489
Inventories						–	39
Trade and other receivables						1	77
Other financial assets					(70)	(70)	1
Cash and cash equivalents					70	70	199
Total current assets					–	1	316
Non-current assets held for sale					–	9	9
Total assets					–	(27)	3,814
LIABILITIES							
Short-term borrowings						–	(39)
Trade and other payables		37				31	(220)
Current tax payable						–	(60)
Total current liabilities		37				31	(319)
Borrowings	13					13	(1,773)
Derivatives	(48)					(48)	(48)
Pension liabilities					(49)	(52)	(151)
Deferred tax liabilities	11		7	(223)	49	(151)	(336)
Provisions						–	(4)
Total non-current liabilities	(24)		7	(223)	–	(238)	(2,312)
Total liabilities	(24)	37	7	(223)	–	(207)	(2,631)
NET ASSETS	(24)	37	7	(223)	–	(234)	1,183
EQUITY							
Called up share capital						–	35
Share premium account						–	14
Capital redemption reserve						–	2
Own shares held						–	(12)
Hedging reserve	(24)					(24)	(24)
Translation reserve					6	6	6
Revaluation reserve					(332)	(335)	–
Retained earnings		37	7	(223)	326	119	1,162
TOTAL EQUITY	(24)	37	7	(223)	–	(234)	1,183

Five year review

Income statement information

	IFRS		UK GAAP				
	2006 52 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
Revenue							
Pubs & Bars	**958**	939	913	873	863	873	863
Restaurants	**762**	684	641	614	605	614	605
Retail	**1,720**	1,623	1,554	1,487	1,468	1,487	1,468
SCPD	**–**	8	6	17	6	17	6
	1,720	1,631	1,560	1,504	1,474	1,504	1,474
Operating profit before exceptional items							
Pubs & Bars	**179**	175	173	172	184	172	184
Restaurants	**130**	113	99	92	93	92	93
Retail	**309**	288	272	264	277	264	277
SCPD	**–**	1	1	2	1	2	1
	309	289	273	266	278	266	278
Operating exceptional items	**(7)**	(4)	(2)	–	–	(5)	–
Profit/(loss) arising on property related items**	**23**	1	2	–	–	–	(2)
Total operating profit	**325**	286	273	266	278	261	276
Non-operating exceptional items	**–**	–	–	–	–	(42)	–
Profit before interest	**325**	286	273	266	278	219	276
Finance charge	**–**	–	–	(76)	(86)	–	–
Interest on net debt	**(109)**	(103)	(101)	–	–	(55)	(43)
Exceptional interest charge	**(4)**	–	(2)	–	–	(8)	–
Net finance income/(charge) on pensions	**8**	3	1	(2)	6	(2)	6
Profit before taxation	**220**	186	171	188	198	154	239
Taxation	**(25)**	(59)	(53)	(61)	(63)	(37)	(78)
Profit for the financial year	**195**	127	118	127	135	117	161
Earnings per share							
Basic	**39.7p**	24.9p	21.1p	–	–	15.9p	21.9p
Diluted	**38.8p**	24.5p	21.0p	–	–	15.9p	21.9p
Adjusted/pro forma	**29.3p**	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							
Normal dividends (£m)	**56**	50	49	–	–	29	–
Special dividends (£m)	**–**	–	501	–	–	–	–
Normal dividends per share	**11.20p**	9.85p	9.50p	–	–	5.65p	–

*Restated on the full adoption of FRS 17 'Retirement Benefits'.
**Profit/(loss) arising on property related items have been reclassified under UK GAAP in 2004 and prior periods in order to be consistent with the IFRS presentation.
***First disclosed in the Annual report and financial statements 2003.

Results for 2005 are presented on a 52 week basis to aid comparability with the current period. The 53 week 2005 results under both IFRS and UK GAAP are summarised on page 81 and are available in full from the Company's website, www.mbplc.com/IFRS. The 2005 results on a 52 week basis are unaudited.

The Mitchells & Butlers group was created on its separation from Six Continents on 15 April 2003. Significant changes were made to the financing structure of the Group which resulted in the replacement of inter company balances owed to Six Continents with external debt. In addition, the Mitchells & Butlers group no longer benefited from the Six Continents group tax arrangements that were in place prior to the separation. The pro forma group 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.

Adjusted earnings per share is stated after removing the impact of exceptional items, less tax thereon.

The adjustments required to make UK GAAP historic information consistent with that presented under IFRS relate to share-based payment charges and the different calculation basis of deferred tax under IFRS. Further detail is given in note 34.

Balance sheet information

	IFRS		UK GAAP		
	2006	2005	2004 restated*	2003 restated*	2002 restated*
	£m	£m	£m	£m	£m
Intangible fixed assets	**22**	26	10	11	11
Property, plant and equipment	**3,867**	3,447	3,509	3,522	3,526
Lease premiums	**13**	16	–	–	–
Total non-current assets	**3,902**	3,489	3,519	3,533	3,537
Inventories	**42**	39	43	43	49
Operating receivables	**80**	77	82	84	82
Non-current assets held for sale and disposal group	**88**	9	–	–	–
Operating payables	**(243)**	(220)	(197)	(176)	(167)
Net current operating liabilities	**(33)**	(95)	(72)	(49)	(36)
Total operating assets less current operating liabilities	**3,869**	3,394	3,447	3,484	3,501
Provisions for liabilities and charges	**(3)**	(4)	(2)	(4)	(14)
Net operating assets	**3,866**	3,390	3,445	3,480	3,487
External (net debt)/cash	**(2,067)**	(1,625)	(1,632)	(1,228)	14
Derivative financial instruments	**(36)**	(35)	–	–	–
Balances owed to Six Continents group	**–**	–	–	–	(831)
Corporate taxation	**(22)**	(60)	(59)	(50)	(59)
Deferred taxation	**(350)**	(336)	(182)	(174)	(179)
Pension liabilities	**(99)**	(151)	(114)	(170)	(139)
Proposed dividend	**–**	–	(34)	(29)	–
Balances relating to exceptional items	**(3)**	–	(1)	(4)	–
Non-operating payables	**(4)**	–	–	–	–
Net assets	**1,285**	1,183	1,423	1,825	2,293

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

The nature of the adjustments required to make UK GAAP historic information consistent with that presented under IFRS is given in note 34.

Cash flow information

	IFRS		UK GAAP				
	2006	2005	2004 restated*	Pro forma 2003 restated*	Pro forma 2002 restated*	2003 restated*	2002 restated*
	£m	£m	£m	£m	£m	£m	£m
Operating profit before exceptional items	**309**	295	273	266	278	266	278
Depreciation and amortisation	**121**	116	108	99	87	99	87
Other non-cash items	**–**	–	–	–	(1)	–	(1)
EBITDA**	**430**	411	381	365	364	365	364
Other non-cash items	**11**	7	14	(1)	(6)	(1)	(6)
Working capital movement	**9**	16	28	7	13	7	13
Additional pension contributions	**(20)**	(30)	(40)	(27)	(10)	(27)	–
Net cash flow from operations**	**430**	404	383	344	361	344	371
Net capital expenditure	**(583)**	(110)	(99)	(103)	(226)	(103)	(226)
Operating cash flow after capital expenditure**	**(153)**	294	284	241	135	241	145
Net interest paid	**(107)**	(102)	(98)			(49)	(43)
Tax paid	**(48)**	(43)	(34)			(44)	(82)
Normal dividends paid	**(56)**	(50)	(44)			–	–
Special dividends paid	**–**	–	(501)			–	–
Issue of ordinary shares	**–**	2	8			4	–
Purchase of own shares	**(76)**	(101)	(12)			–	–
Proceeds on release of own shares held	**12**	14	1			–	–
Operating exceptional expenditure	**–**	(4)	(5)			(38)	–
Expenditure associated with refinancing	**(10)**	–	(22)			(1)	–
Facility fees paid	**–**	–	–			(15)	–
Defence costs (note 8)	**(4)**	–	–			–	–
Net cash flow	**(442)**	10	(423)			98	20

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

All years are for 52 week periods with the exception of 2005 which is a 53 week period.

Mitchells & Butlers plc – parent company balance sheet

30 September 2006

	Notes	2006 £m	2005 restated* £m
FIXED ASSETS			
Investments	7	**1,738**	1,739
CURRENT ASSETS			
Debtors	8	**622**	132
Investments		**114**	2
Cash at bank and in hand		**172**	79
		908	213
Creditors: amounts falling due within one year	9	**(1,692)**	(1,531)
NET CURRENT LIABILITIES		**(784)**	(1,318)
NET ASSETS BEFORE NET PENSION LIABILITIES		**954**	421
Net pension liabilities	3	**(65)**	(99)
NET ASSETS		**889**	322
CAPITAL AND RESERVES			
Called up share capital	10	**34**	35
Share premium account	11	**14**	14
Capital redemption reserve	11	**3**	2
Profit and loss account reserve	11	**838**	271
EQUITY SHAREHOLDERS' FUNDS		**889**	322

Signed on behalf of the Board

K Naffah
Director
Dated: 28 November 2006

T Clarke
Director
Dated: 28 November 2006

The accounting policies and the notes on pages 91 to 99 form an integral part of these financial statements.

*Restated on the adoption of FRS 20 'Share-based payment' and FRS 21 'Events after the balance sheet date'.

Report from the auditors

We have audited the parent company financial statements of Mitchells & Butlers plc for the year ended 30 September 2006 which comprise a Balance sheet and the related notes 1 to 13. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the group financial statements of Mitchells & Butlers plc for the year ended 30 September 2006.

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 responsible for preparing the Annual report, the Directors' remuneration report and the parent company financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view, the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the parent company Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006;

- the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the parent company financial statements.

Ernst & Young LLP
Registered auditor
London
28 November 2006

Notes to the parent company financial statements

1. Accounting policies

Basis of accounting
The financial statements have been prepared under the historical cost convention. They comply with applicable accounting standards in the United Kingdom, including FRS 20 'Share-based payment', FRS 21 'Events after the Balance Sheet date', FRS 23 'The Effects of Changes in Foreign Exchange Rates', FRS 26 'Financial Instruments: Measurement' and FRS 28 'Corresponding amounts', which have been applied in full for the first time this year. Further details are provided in note 2.

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

Deferred taxation
Deferred tax assets and liabilities are recognised, subject to certain exceptions, in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Those timing differences recognised include accelerated capital allowances and short-term timing differences. Timing differences not recognised include those relating to the revaluation of fixed assets in the absence of a commitment to sell the assets, the gain on sale of assets rolled into replacement assets and the distribution of profits from overseas companies in the absence of any commitment by the company to make the distribution.

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

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

Pensions
The Company adopted FRS 17 'Retirement Benefits' in full in 2005.

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

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.

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

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

Profit and loss account
The Company has taken advantage of Section 230 of the Companies Act 1985 and not presented its own profit and loss account. The Company recorded a profit after tax of £667m (2005 £117m after restatements as per note 2). Dividends of £56m (2005 £50m) were declared during the period.

Auditors' remuneration for audit services to the Company was £20,000 (2005 £15,000). This is borne by another Group company (see note 4 to the Group financial statements).

The consolidated financial statements of Mitchells & Butlers plc are required to comply with the Companies (Disclosure of Auditor Remuneration) Regulations 2005.

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

Exchange rates
The results of overseas operations have been translated into sterling at weighted average rates of exchange for the year of £1 = €1.46 (2005 £1 = €1.45) 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 (2005 £1 = €1.47).

2. Change in accounting policies

Share-based payment
The Company has adopted FRS 20 'Share-based payment' from 2 October 2005. In prior years the Company has complied with UITF 17 'Employee share schemes'.

The Company operates a number of equity-settled share-based compensation plans, whereby employees render services in exchange for shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is generally recognised

2. Change in accounting policies continued

over the vesting period and is adjusted for the estimated effect, on the number of shares that will eventually vest, of non market-based vesting conditions and forfeitures due to employees leaving the employment of the Group. The credit entry for the charge to the profit and loss account is reported in the reconciliation of movement in shareholders' funds. Fair values are calculated using a combination of Black-Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

The Company has taken advantage of the transitional provisions of FRS 20 and applies its requirements to only those awards granted after 7 November 2002 that had not vested before 1 January 2005.

No recharges are made to other group companies for share awards made to the employees of subsidiary companies. As permitted by FRS 20, no accounting entries are made in the Company prior to the transfer of shares to employees, for share awards made to the employees of other group companies.

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

Previous accounting under UITF 17 involved the valuation of options on an intrinsic value basis at the date of grant, being the difference between the option price and any amount to be paid by the employee.

Dividends
The Company has adopted FRS 21 'Events after the balance sheet date' with effect from 2 October 2005. Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid. Previous accounting under SSAP 17 'Post balance sheet events' required dividends to be recognised when proposed.

Foreign currencies
The Company has adopted FRS 23 'The Effects of Changes in Foreign Exchange Rates' and FRS 26 'Financial Instruments: Measurement' with effect from 2 October 2005, which apply to its investment in and loan from Mitchells & Butlers Germany GmbH. In prior years the Company has complied with SSAP 20 'Foreign currency translation'. Under FRS 23, the general rule is that an investment in a foreign company, being a non-monetary item, should be measured at cost using the exchange rate on the date of the initial transaction. However, the euro loan from Mitchells & Butlers Germany GmbH is a monetary item and should be converted at the period end rate with exchange differences arising passing through the profit and loss account. The Company has taken advantage of provisions within FRS 26 allowing fair value hedge accounting to be applied so that the long-term element of the euro loan from Mitchells & Butlers Germany GmbH can be hedged against part of the investment in Mitchells & Butlers Germany GmbH with exchange differences netting off in the profit and loss account. The remainder of the investment in Mitchells & Butlers Germany GmbH is held at cost as described above. Under SSAP 20 the Company applied the cover method which resulted in the investment and loan being retranslated at the period end rate with all exchange differences arising being transferred to the profit and loss account reserve. FRS 23 has been applied retrospectively and FRS 26 has been applied prospectively. Prior year adjustments are not material.

Derivative financial instruments
The Company has adopted FRS 26 'Financial Instruments: Measurement' with effect from 2 October 2005, which applies to the Company's hedging arrangements for derivative financial instruments.

The Company uses interest rate swap contracts to hedge an element of the Mitchells & Butlers group's exposure to changes in interest rates. The hedged items are held by a subsidiary undertaking. Derivative financial instruments are not used for trading or speculative purposes.

Interest rate swap contracts are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Fair value is calculated as the present value of the estimated future cash flows. Changes in the fair value of these instruments are recognised in the profit and loss account in the period in which the changes arise.

There are no prior year adjustments as a result of adopting FRS 26, as the Company did not enter into any hedging arrangements prior to the current period.

Corresponding amounts
FRS 28 'Corresponding amounts' was adopted from 2 October 2005. Since the Company already complied with the requirements of this standard there have been no accounting or disclosure impacts in the period.

Impact of changes in accounting policies
The changes in accounting policy have been accounted for as prior year adjustments where applicable and previously reported figures have been restated accordingly, as follows:

Profit and loss account for the 53 weeks ended 1 October 2005	Profit after tax £m
As previously reported	120
Adoption of FRS 20	(3)
As restated	117

FRS 21, FRS 23, FRS 26 and FRS 28 were also adopted during the period, but no restatements to the prior period profit after tax were required in respect of these.

The impact of the adoption of FRS 20 on the 2006 results for the financial period is disclosed in note 5. The adoption of FRS 21 has not impacted the results for the period.

2. Change in accounting policies continued

Balance sheet at 1 October 2005	Debtors £m	Creditors £m	Shareholders' funds £m
As previously reported	140	(1,566)	295
Adoption of FRS 20*	(8)	(2)	(10)
Adoption of FRS 21	–	37	37
As restated	132	(1,531)	322

*This adjustment relates to the restatement of certain intercompany balances.

FRS 23, FRS 26 and FRS 28 were also adopted during the period, but no restatements to the prior period balance sheet were required in respect of these.

3. Pensions

The Company accounts for pensions under FRS 17 'Retirement Benefits'.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated contributions is contained within note 7 page 55 to the consolidated financial statements.

Pension costs are assessed in accordance with the advice of independent qualified actuaries. The Company's total pension cost included within operating profit for the 52 weeks ended 30 September 2006 under FRS 17 was £15m (2005 £14m), comprising £14m (2005 £13m) in respect of the defined benefit pension arrangements and £1m (2005 £1m) in respect of the defined contribution arrangements.

The valuations used for FRS 17 purposes are based on the results of the full actuarial valuation carried out at 31 March 2004 updated by the independent qualified actuaries to 30 September 2006. Scheme assets are stated at market value at 30 September 2006 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. As the defined benefit sections of the pension plans are now closed to new members, the current service cost as calculated under the projected unit method will increase as members approach retirement.

The principal financial assumptions used by the actuaries at the balance sheet date and the basis of these are contained within note 7 page 56 to the consolidated financial statements.

The long-term rates of return on assets at 30 September 2006 shown below form the basis of the calculation of the expected return on pension scheme assets for the 2007 financial year. The 2005 rates shown are used in calculating the 2006 expected return.

	2006		2005	
	Long-term rates of return expected %	**Value £m**	Long-term rates of return expected %	Value £m
Equities	**7.5**	**598**	7.5	563
Bonds	**4.6**	**488**	4.6	428
Property	**7.5**	**99**	7.5	90
Fair value of assets		**1,185**		1,081
Present value of scheme liabilities		**(1,281)**		(1,229)
Deficit in the schemes recognised as a liability in the balance sheet		**(96)**		(148)
Associated deferred tax asset		**31**		49
Net pension liabilities		**(65)**		(99)

3. Pensions continued

Statement of total recognised gains and losses	2006 £m	2005 £m
Actual return less expected return on pension scheme assets	**43**	100
Experience gains and losses arising on the scheme liabilities	**–**	–
Changes in assumptions underlying the present value of the scheme liabilities	**(16)**	(107)
Actuarial gain/(loss) recognised	**27**	(7)

History of experience gains and losses	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets					
Amount (£m)	**43**	100	27	39	(124)
Percentage of scheme assets	**4%**	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 recognised gains and losses					
Amount (£m)	**27**	(7)	39	(71)	(228)
Percentage of the present value of the scheme liabilities	**2%**	(1)%	4%	(7)%	(25)%

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

Profit and loss account

	2006 52 weeks £m	2005 53 weeks £m
Operating profit:		
Current service cost	**(14)**	(12)
Past service cost	**–**	(1)
Charge to operating profit	**(14)**	(13)
Interest:		
Expected return on pension scheme assets	**69**	62
Interest on pension scheme liabilities	**(61)**	(59)
Net finance income in respect of pensions	**8**	3
Net pension cost before taxation	**(6)**	(10)

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

	2006 52 weeks £m	2005 53 weeks £m
Opening balance	**(148)**	(173)
Operating profit charge	**(14)**	(13)
Net finance income	**8**	3
Contributions	**31**	42
Actuarial gain/(loss) recognised	**27**	(7)
Closing balance	**(96)**	(148)

4. Employees and Directors

	2006 52 weeks Number	2005 53 weeks Number
Average number of employees, including part-time employees	**9**	9

Detailed information in relation to the Directors of the Company regarding emoluments, pensions, long-term incentive scheme entitlements and interests in shares is given in the Remuneration report on pages 33 to 38.

5. Share-based payments

The expense recognised for share-based payments in the year is £4m (2005 £3m) which comprises share option schemes and share awards to the employees of the Company.

The Company had six share-based payment schemes, all of which are equity-settled, in operation during the year. These are described on page 52.

The tables on page 53 set out awards and options granted by the Company during 2006 and 2005. The Group has used separate option pricing models and assumptions for each plan. Details of how the fair value of each option was calculated are also included on pages 52 and 53.

Movements in the awards and options over the Company's shares outstanding under these schemes for the years ended 30 September 2006 and 1 October 2005 in relation to the employees of the Mitchells & Butlers group are shown on page 54.

Movements in the awards and options outstanding under these schemes, in respect of the employees of the Company, for the periods ended 30 September 2006 and 1 October 2005 are as follows:

	Short-Term Deferred Incentive Plan Number of shares thousands	Performance Restricted Share Plan Number of shares thousands	Share Incentive Plan Number of shares thousands
Outstanding at 26 September 2004	240	2,606	12
Granted	519	720	6
Exercised	(80)	–	–
Lapsed	–	(649)	–
Outstanding at 1 October 2005	679	2,677	18
Granted	325	1,098	4
Exercised	(253)	(384)	–
Lapsed	–	(565)	–
Outstanding at 30 September 2006	751	2,826	22
Fair value of options granted during the period (pence)			
At 30 September 2006	354.1	275.8	515.0
At 1 October 2005	301.6	211.6	334.3
Weighted average remaining contract life (years)			
At 30 September 2006	1.3	3.2	–[i]
At 1 October 2005	1.1	3.1	–[i]

[i] SIP shares are capable of remaining within the SIP trust indefinitely while participants continue to be employed by the Group.

5. Share-based payments continued

	Executive Share Option Plan		Sharesave Plan		Rolled-over Options	
	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence	Number of shares thousands	Weighted average option price pence
Options outstanding at 26 September 2004	3,653	234.9	42	175.4	3,835	256.7
Granted	1,380	326.1	–	–	–	–
Exercised	–	–	–	–	(1,093)	211.1
Lapsed	–	–	–	–	–	–
Options outstanding at 1 October 2005	5,033	259.9	42	175.4	2,742	274.9
Granted	–	–	2	401.0	–	–
Exercised	(353)	2.19	–	–	(937)	269.7
Lapsed	–	–	–	–	–	–
Options outstanding at 30 September 2006	4,680	263.0	44	187.3	1,805	277.6
Options exercisable						
At 30 September 2006	1,571	2.19	–	–	1,805	277.6
At 1 October 2005	–	–	–	–	2,742	274.9
Fair value of options granted during the period (pence)						
At 30 September 2006	–		145.3		–	
At 1 October 2005	86.0		–		–	
Range of option prices (pence)						
At 30 September 2006	219.0 – 326.1		169.0 – 401.0		259.7 – 364.5	
At 1 October 2005	219.0 – 326.1		169.0 – 209.0		214.5 – 364.5	

Options were exercised on a regular basis during the period. The weighted average share price during the period was 458.0p (2005 328.3p)

Summarised information about options over the Company's shares outstanding at 30 September 2006 under the share option schemes, in respect of the employees of the Mitchells & Butlers group, is shown on page 54.

Summarised information about options outstanding, in respect of the employees of the Company, at 30 September 2006 under the share option schemes is as follows:

	Options outstanding			Options exercisable		
Range of exercise prices (pence)	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence	Number outstanding thousands	Weighted average remaining contract life years	Weighted average option price pence
Performance Restricted Share Plan						
Negligible[(i)]	**2,826**	**3.2**	–[(i)]	**26**	**1.2**	–[(i)]
Executive Share Option Plan						
219.0	1,571	6.7	219.0	1,571	6.7	219.0
252.5	1,729	7.6	252.5	–	–	–
326.1 – 330.5	1,380	8.6	326.1	–	–	–
	4,680	**7.6**	**263.0**	**1,571**	**6.7**	**219.0**
Sharesave Plan						
169.0	35	1.6	169.0	–	–	–
209.0	7	1.5	209.0	–	–	–
258.5	2	3.5	401.0	–	–	–
	44	**1.7**	**187.0**	**–**	**–**	**–**
Rolled-over Options						
181.4p to 242.0p	1,570	4.4	266.5	1,570	4.4	266.5
242.1p to 303.0p	235	1.2	351.4	235	1.2	351.4
	1,805	**4.0**	**277.6**	**1,805**	**4.0**	**277.6**

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

6. Dividends

Dividends paid and recognised in equity by the Company in the period are disclosed within note 11 page 60 to the consolidated financial statements.

7. Fixed asset investments

	Shares in group undertakings £m
Cost	
At 2 October 2005 and 30 September 2006	**1,745**
Provision	
At 2 October 2005	6
Provided during year	1
At 30 September 2006	**7**
Net book value	
At 30 September 2006	**1,738**
At 1 October 2005	1,739

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

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

*Shares held directly by Mitchells & Butlers plc

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

8. Debtors

	2006 **£m**	2005 restated* £m
Amounts owed by group undertakings	**581**	104
Group relief receivable	**36**	26
Deferred tax asset	**3**	2
Other debtors	**1**	–
Prepayments	**1**	–
	622	132

*Restated on the adoption of FRS 20. Further detail is given in note 2 to the financial statements.

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

9. Creditors: amounts falling due within one year

	2006 £m	2005 restated* £m
Borrowings	**6**	11
Amounts owed to group undertakings	**1,680**	1,520
Other creditors	**4**	–
Accruals	**2**	–
	1,692	1,531

*Restated on the adoption of FRS 20 and FRS 21. Further detail is given in note 2 to the financial statements.

Borrowings in 2006 and 2005 comprise overdrafts which are repayable on demand.

10. Called up share capital

Details of the amount and nominal value of authorised and called up, allotted and fully paid share capital of the Company are contained in note 23 page 71 to the consolidated financial statements.

11. Share capital and reserves

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account reserve: Own shares £m	Profit and loss account reserve: Other £m	Profit and loss account reserve: Total £m	Total share capital and reserves £m
At 1 October 2005:							
As previously reported	35	14	2	(12)	256	244	295
Adoption of FRS 20	–	–	–	–	(10)	(10)	(10)
Adoption of FRS 21	–	–	–	–	37	37	37
As restated*	35	14	2	(12)	283	271	322
Purchase of own shares	(1)	–	1	(22)	(58)	(80)	(80)
Release of own shares held	–	–	–	22	(10)	12	12
Credit in respect of employee share schemes	–	–	–	–	4	4	4
Actuarial gain on pension schemes	–	–	–	–	27	27	27
Deferred tax relating to actuarial gain	–	–	–	–	(7)	(7)	(7)
Profit after taxation	–	–	–	–	667	667	667
Dividends	–	–	–	–	(56)	(56)	(56)
At 30 September 2006	**34**	**14**	**3**	**(12)**	**850**	**838**	**889**

*Restated on the adoption of FRS 20 'Share-based payment' and FRS 21 'Events after the balance sheet date' see note 2.

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

Included in the profit and loss account reserve is a pension reserve of £65m (2005 £99m) which equates to the net pension liabilities under FRS 17.

11. Share capital and reserves continued

Own shares

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

During the period, 1,589,880 treasury shares were released to employees on the exercise of share options for a total consideration of £4m, but no treasury shares were acquired. The 518,018 shares held in treasury at 30 September 2006 had a market value of £3.1m. The aggregate nominal value of the treasury shares held at 30 September 2006 was £37,000.

During the period, the employee share trusts acquired 4,351,933 shares at a cost of £22m and released 4,282,188 shares to employees on the exercise of options and other share awards for a total consideration of £8m. The 2,209,624 shares held by the trusts at 30 September 2006 had a market value of £13m (2005 2,139,879 shares held had a market value of £7.8m).

12. Deferred tax asset

	£m
At 2 October 2005	2
Profit and loss account	1
At 30 September 2006	**3**

Analysed as tax on timing differences related to:

	2006 £m	2005 £m
Share-based payments	**3**	2

13. Related party transactions

The Company is not required to provide related party disclosures in its own financial statements, as they are presented with the consolidated financial statements of the Group under FRS 8 'Related Party Disclosures'.

Shareholder information

Electronic communication
Shareholders can register to receive an e-mail notification of the availability of the Company's latest shareholder communications at the following website, www.mbplc.com/investors. The website also enables shareholders to view details of their own shareholding or electronically appoint a proxy to vote on their behalf on any poll that may be held at the forthcoming Annual General Meeting.

Amalgamating your share accounts
If you received more than one copy of this report, it may be because the Registrar has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future, you can have all your shares amalgamated into one account by contacting the Registrar at the address below.

Dividend mandates
Shareholders who wish dividends to be paid directly into a bank or building society account, should contact the Registrar for a dividend mandate form. This method of payment removes the risk of delay or loss of dividend cheques in the post and ensures that your account is credited on the due date.

Dividend reinvestment plan (DRIP)
Shareholders can choose to reinvest dividends received to purchase further shares in the Company through a DRIP. A DRIP application form is available at the following website, www.mbplc.com/investors

Low cost share dealing service
A simple, low cost postal facility for buying and selling Mitchells & Butlers plc ordinary shares is available through the Company's Registrar. Information may be obtained from the address below or at www.shareview.co.uk/dealing

Individual savings accounts (ISAs)
ISAs in Mitchells & Butlers plc ordinary shares are available through the Registrar and information may be obtained from the address below.

Share price information
The latest Mitchells & Butlers plc share price is available in the financial press or on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone +44 (0) 906 003 1366 (calls charged at 60p per minute).

ShareGift
The Orr Mackintosh Foundation operates this charity share donation scheme for shareholders with small holdings of shares, whose value makes them uneconomic to sell. Details can be obtained from the Registrar or the ShareGift website www.ShareGift.org or by calling ShareGift on +44 (0) 20 7828 1151.

Six Continents demerger
The entitlements received by former shareholders of Six Continents PLC on the separation in 2003 of the Retail (Mitchells & Butlers) and Hotels (InterContinental Hotels Group) businesses, together with a summary of the UK Capital Gains Tax treatment of those entitlements, are set out on the Company's website at www.mbplc.com/cgt
The website also contains information to assist in calculating the base cost of Six Continents' ordinary shares to demerger.

Special Dividend and share consolidation
The Company paid, on 25 October 2006, a Special Dividend of £1 per share to shareholders on the Register at the close of business on 17 October 2006.

As approved by shareholders on 17 October 2006, the Special Dividend was accompanied by a consolidation of the Company's share capital, effective from 18 October 2006, whereby shareholders received 34 new ordinary shares for every 41 existing ordinary shares held on 17 October 2006.

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If you have hearing difficulties, a text phone is available on 0870 600 3950, for callers with compatible equipment.

Low cost share dealing service and ISAs telephone 0870 242 4244 or visit www.shareview.co.uk

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Merrill Lynch International

Auditor
Ernst & Young LLP

Investment bankers
Citigroup

Solicitors
Allen & Overy LLP

Design and production
Sheppard Day

Print
Royle Corporate Print

Printed on
Cover: 250gsm Hanno Art Gloss
Inners: 120gsm Challenger Offset

Hanno Art Gloss is made from a totally chlorine free pulp and is produced by an environmentally accredited mill: ISO 14001. Challenger Offset is elementally chlorine free and is produced by an environmentally accredited mill: ISO 14001. The document has been printed by an environmentally certified printer: ISO 14001.

Glossary

Acquired Sites
239 pub restaurant sites acquired from Whitbread PLC in July 2006.

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

AWT (Average weekly take)
The average sales per pub per week, calculated as total sales divided by the average number of pubs trading during the year divided by the number of weeks in the financial year.

Blended net interest rate
Net interest divided by average net debt expressed as a percentage.

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

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

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

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

CAGR
Compound Annual Growth Rate

Covers
The number of main meals sold.

Cover turn
The total number of main meals sold divided by the number of main meals that could be sold in one sitting.

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

External costs
Costs influenced by outside factors, i.e. regulatory and energy costs.

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

Gross margin
Gross profit divided by sales, expressed as a percentage.

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

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

IFRS
International Financial Reporting Standards

National Minimum Wage
The minimum amount an employer must pay its workers as defined by law.

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

Operating profit
Earnings before interest, tax and exceptional items.

Outlet employment ratio
Pub employment costs divided by total sales, expressed as a percentage.

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

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

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

Same outlet like-for-like sales growth
The increase in sales performance of all managed pubs that were trading for the two periods being compared, expressed as a percentage.

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

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

Uninvested like-for-like sales growth
The increase in sales performance of those managed pubs that have not received expansionary investment of more than £30,000 in either year being compared, expressed as a percentage.

List of images

Front cover
The Blackfriar, Nicholson's, City of London

Inside front cover
Browns, Maddox Street, Central London

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