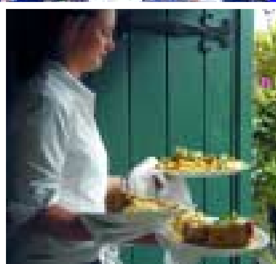
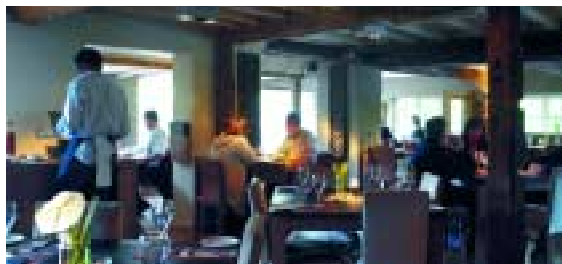
Mitchells & Butlers





Interim Report
and Accounts 2004

ALL·BAR·ONE

Vintage Inns

REFLEX

Mitchells & Butlers

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

Financial highlights

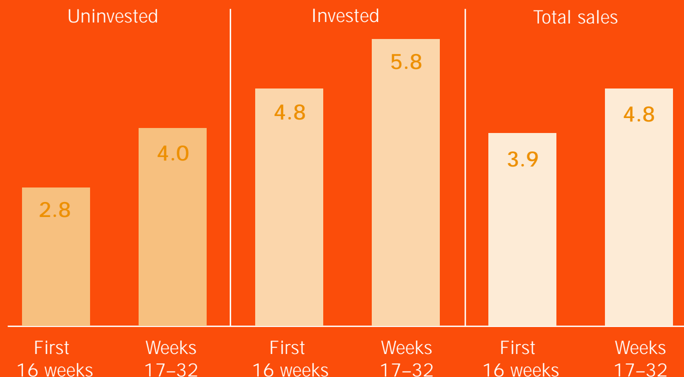
- Turnover up 4% to £823m
- EBITDA* up 3% to £197m
- Operating profit* up 2% to £140m
- Profit before tax* down 5% to £88m
- Earnings per share* up 16% to 10.0p
- Basic earnings per share of 9.5p (8.4p)
- Interim dividend 2.85p

*Before exceptional items. PBT & EPS: pro forma comparative for 2003.

Like-for-like and total sales performance in first half (%)

All figures restated for the Amendment to FRS 5

Strong sales growth



A glossary of terms used within this report is provided on the inside back cover.

Chairman's statement

During the first six months of this financial year Mitchells & Butlers has continued to focus its energies on four key sources of profit growth: growing sales, raising productivity, managing costs and constant innovation, all with some encouraging results.

In November we completed the securitisation of the majority of our pubs. This enabled us to put in place a long-term financing structure which was tailored specifically to the needs of our business, and to return £501m to our shareholders.

The actions we have taken to improve choice, value and service for the customer together with thoughtful, targeted marketing have been instrumental in enabling us to report strong growth in like-for-like sales.

Sales growth however, whilst a good indicator of a healthy business, is not in itself sufficient and the focus of our strategy remains to grow earnings per share and cash flows, both of which we have achieved.

In recent months a number of social issues have attracted a lot of attention, most notably the Government's Alcohol Harm Reduction Strategy and the general health concerns around smoking in public places. On the former, our operating controls are amongst the toughest in the industry; we observe all current best practice obligations and we will continue to meet our social responsibilities in the future. On smoking, we have a no smoking at the bar policy in the vast majority of our pubs. Our high quality estate and the strength of our brands and formats mean that we are comparatively well placed to attract as many customers, currently put off by the old-fashioned smoky image of pubs, as may be lost from any potential ban.

Our nearly 40,000 employees have been instrumental in helping us achieve this performance. I am grateful to all of them for their hard work, tenacity and loyalty.

Strong cash generation continues to be an underlying strength of the business. As we go forward into our second year, our clear philosophy remains to deploy our cash resources to the benefit of shareholders and bondholders, be that through investment, bolt-on acquisition or returns to shareholders by way of enhanced dividend or share buy back.

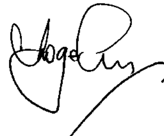
Current trading and outlook

Overall trading is in line with the Board's expectations for the year.

Sales growth in the eight weeks to 8 May 2004 (which includes the full Easter period in both years) continues to be strong, particularly in residential areas. The High Street has also seen further improvement.

8 weeks to 8 May 2004	Same outlet (invested) like-for-like	Uninvested like-for-like
Residential	6.9%	5.1%
High Street	5.1%	3.4%
Total	6.3%	4.6%

We remain focused on tight cost management to offset the increase in external costs and maximise the profit contribution from our sales activity so as to continue to grow earnings and cash flows in the second half.



Roger Carr Chairman

A year on from the demerger, Mitchells & Butlers is performing well. The benefits of focus and a reborn pub identity are reflected in the enthusiasm with which our people are executing the strategy.

We are focused on providing our customers with the best overall value experience competitively available in the market. As a result, food sales growth has accelerated and drinks market share has been gained. Higher sales volumes are in turn enabling us to generate cost efficiencies from both our unit and corporate scale.

These levers are the key to achieving our financial objectives of driving earnings growth and high returns on assets, sustainable for the longer term.

Generating profitable sales growth

We have been pursuing the optimal combination of price, volume and mix to maximise profits and actively enhancing the food and drink range to increase customer choice. Our volume increases of 8%, with a 3% reduction in average retail prices, have driven same outlet like-for-like sales growth of 5.3% (32 weeks) and we are continuing to gain market share. Despite the significant rebasing of prices we are also able to report growth in uninvested like-for-like gross profits.

Productivity gains and cost efficiencies

We started this financial year with an increase in the cost base of some £8m in the first half, primarily as a result of the 7% increase in the National Minimum Wage in October. Our volume-led strategy has enabled cost efficiencies which have offset these increases.

We have renegotiated some 60% of our food and drink supply contracts by value achieving a net reduction of 2% overall across our supply terms. We have also maintained staff contribution per hour to offset the increase in wage rates and reduction in average prices. In addition, we have achieved central support cost savings of £5m through actions put in place last year.

Brand and format performance

Same outlet like-for-like sales were up 6.4% (32 weeks) in the 70% of the estate in residential areas. This growth is being driven by our five leading residential brands: Ember Inns, Harvester, Sizzling Pub Co, Toby Carvery and Vintage Inns, and the strong consumer appeal of their informal food and drink offers.

In the 30% of the estate in the High Street, the differentiation of brands such as All Bar One, Goose and O'Neill's and our consumer value proposition is driving out-performance in tough trading conditions. Same outlet like-for-like sales were up 3.1% (32 weeks).

Pro-active estate development

We have continued with our programme of raising the quality of the estate.

Our investment has been concentrated in residential areas and is showing good sales uplifts and returns slightly ahead of the 14% being achieved on the capital invested in developing our brands and formats over the last 10 years. For the year as a whole we now anticipate completing 100 to 110 conversions, reflecting a rigorous approach to evaluation but no change to our overall assessment of the potential pipeline. We also anticipate opening 11 new pubs this year, four with adjacent lodges.

Encouraged by the results and interest from individual operators for our Business Franchise, we have plans to extend this initiative further from the 56 pubs trading at the half year to around 100 over the next six months. In return for access to Mitchells & Butlers' support systems, training and food purchasing scale, we can attract additional entrepreneurial talent and create value through a share of the trading upside and continued ownership of the property.

Where we see a greater opportunity to add value through disposal we will do so. We achieved proceeds of £29m in the first half and we currently anticipate proceeds of around £50m for the year. Overall, we expect net capital expenditure to be around £100m for the year as a whole.

Strong earnings per share growth and cash returns

As a result of our operating performance and cash generation together with the successful refinancing of the Company completed in December, underlying earnings per share were up 16%. In addition, the business continues to generate high returns with a post-tax cash return in excess of 10%.

Operating and financial review

This Operating and financial review provides a commentary on the performance of the Mitchells & Butlers group for the 28 weeks ended 10 April 2004 and compares it with the equivalent period in 2003.

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

Overall performance

Mitchells & Butlers is one of the UK's leading operators of pubs, bars and pub restaurants, with an estate of 2,057 sites as at 10 April 2004. The outlets are predominantly freehold, mostly in residential areas and have a book value of £3.5bn. The 1,989 managed outlets had average weekly takes of £14,700 in the period, three times the industry average.

Total sales in the first half were £823m, 4.3% up on first half last year. Sales growth continues to be particularly strong in our residential pubs, and our High Street businesses are showing an improvement in a competitive market.

	Same outlet (invested)* like-for-like	Uninvested* like-for-like
Residential	6.4%	4.4%
High Street	3.1%	1.3%
Total	5.3%	3.4%

*32 weeks to include Easter in both periods.

The business invested gross capital expenditure of £77m in the period under review. Five new pubs were opened which, together with investment in converting 63 existing pubs to new brands or formats, accounted for £29m of total capital expenditure. In addition, the evolution and maintenance of the estate continues in order to keep existing offers up to date and in good condition.

Group operating profit before exceptional items was up 2.2% at £140m.

Pubs & Bars

	H1 2004	
Total sales	£485m	+4.5%
Operating profit	£92m	+1.1%
Same outlet like-for-like sales		+4.7%*
Uninvested like-for-like sales		+2.2%*

*32 weeks to include Easter in both periods.

Sales growth has remained strongest in the residential segment led by our two drink-led brands with distinctive food offers – Ember Inns and Sizzling Pub Co. Performance in the High

Street and in London has also improved. Total sales growth was diluted by disposals and transfers to Business Franchises.

A total of 54 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co, Ember Inns and the Metropolitan Professionals format. Overall, as a result of our active franchise development programme and selective disposals, the number of managed pubs and bars reduced by a net 41 over the half year to 1,346.

Operating profit of £92m was up 1.1% on first half last year.

Restaurants

	H1 2004	
Total sales	£333m	+3.7%
Operating profit	£47m	+4.4%
Same outlet like-for-like sales		+6.2%*
Uninvested like-for-like sales		+5.0%*

*32 weeks to include Easter in both periods.

Sales in the Restaurant division benefited from menu development and enhancements to the drinks range. At the same time, we have been further evolving the pub restaurant brands to provide a distinct bar area, increasing the opportunity for pre- and post-meal drinks sales. Vintage Inns, Harvester and Toby all traded strongly in the period. All Bar One and Browns benefited in the second quarter from the recovery of the Central London market.

Four new Vintage Inns opened in the period together with nine pub restaurant conversions. Following some transfers to Pubs & Bars, the total number of restaurants has reduced by a net 17 to 643.

Operating profit of £47m was 4.4% up on first half last year.

Standard Commercial Property Developments (SCPD)

SCPD aims to maximise the value of the Group's surplus properties which are suitable for development. Turnover of £5m and operating profit of £1m were generated during the period, primarily through the sale of a retail development in Bournemouth on the site of a former pub.

Exceptional items

Exceptional operating costs of £2m relate to the securitisation of the Group's UK pub and pub restaurant business which was completed on 13 November 2003. An exceptional interest charge of £2m arises from the acceleration of facility fee amortisation in respect of the syndicated loan facility put in place at the time of separation and repaid on securitisation.

Refinancing and return of funds

On 13 November 2003, the Group completed a securitisation of the majority of its UK pubs and restaurant business, raising a total of £1.9bn through the issue of secured loan notes and providing the Group with long-term financing at attractive rates. The proceeds from the securitisation were used to repay the Group's outstanding borrowings of £1,243m under its syndicated loan facility, meet the costs of the refinancing, make special additional contributions to the pension schemes and return surplus funds of £501m to shareholders by way of a special dividend of 68p per share accompanied by a 12 for 17 consolidation of the number of shares in issue.

Interest

The net interest charge for the half year was £52m before the exceptional charge of £2m.

Following the securitisation, the Group has a blended interest rate of approximately 6.3% including the interest cost on the £1.9bn loan notes issued, amortisation of deferred issue costs and interest income earned on the Group's cash balances.

Taxation

The tax charge of £29m, excluding exceptional items, represents an effective tax rate of 32.4% which is higher than the UK statutory rate due to non-allowable items, in particular the depreciation of properties.

Earnings per share

Underlying earnings per share, calculated before

exceptional items and compared to the pro forma comparative for the first half last year, were 10.0p, up 16%. Adjusted earnings per share, which adjusts for exceptional items but reflects the financing structure pre demerger for last year, was 10.0p (H1 2003 10.5p). Basic earnings per share for the period were 9.5p (H1 2003 8.4p).

Dividends

The dividend charge for the period of £516m comprises the special dividend of £501m referred to above and paid on 8 December 2003, plus a proposed interim dividend of £15m. The latter equates to a dividend per ordinary share of 2.85p and will be paid on 1 July 2004 to shareholders registered on 28 May 2004.

The Board has announced its intention to recommend a final ordinary dividend of 6.65p per share thereby giving an expected total dividend for the year ending 30 September 2004 of 9.5p per share.

Cash flow and net debt

The Group's operations continued to generate strong cash flow with EBITDA of £197m before exceptional items, compared to £191m last year. Operating cash flow after net capital expenditure, but before expenditure relating to exceptional items, was £155m compared with £152m last year.

Net interest paid was £45m, tax paid was £9m and the final dividend for 2002/03 was £29m. Following the refinancing and return of £501m to shareholders, accompanying issue costs and additional pension contributions of £40m, the Group had net debt at 10 April 2004 of £1,667m.

Pensions

On an FRS 17 basis, the Group's pension schemes showed a deficit of £170m after tax at 30 September 2003. At 31 March 2004, it is estimated that this deficit had fallen to £141m, reflecting the benefit of the additional pension contributions and improved investment returns, after allowing for an increase in life expectancy assumptions. As announced at the time of the securitisation, the Company has agreed to make further additional cash contributions of £10m in each of the next two years.

Actuarial valuations of the Group's pension schemes as at 31 March 2004 are currently in progress.

Accounting policies

Amendment to FRS 5 'Reporting the substance of transactions: Revenue recognition' and UITF 38 'Accounting for ESOP Trusts' apply for the first time in these interim financial statements. The adoption of the Amendment to FRS 5 has required the Group to change its accounting policy on revenue recognition to record turnover net of coupons and staff discounts. Prior period comparatives have been restated accordingly, with a decrease in the Group's reported turnover in H1 2003 of £4m (2003 full year £9m) and no impact on reported profits. UITF 38, which requires an entity's own shares held in employee share trusts to be deducted from shareholders' funds rather than being shown as an asset, has not required a restatement of prior period comparatives.

IFRS implementation

Mitchells & Butlers will present its first set of financial statements prepared under International Financial Reporting Standards (IFRS) for the year ending 30 September 2006. This will require a full profit and loss account, balance sheet and cash flow statement for the year ending 30 September 2005 for comparative purposes.

A project is under way to ensure that appropriate accounting policies, processes and procedures are in place to facilitate a smooth transition to IFRS. The areas where significant differences in accounting policy have been identified to date include the recognition and measurement of financial instruments, accounting for pensions, accounting for share-based remuneration and deferred tax.

Tim Clarke Chief Executive

Pro forma group profit and loss account

for the 28 weeks ended 10 April 2004

The results for the 28 weeks ended 10 April 2004 are the actual results for the period excluding exceptional items.

	2004 28 weeks £m	2003 28 weeks restated* £m	2003 52 weeks restated* £m
Turnover	**823**	789	1,504
Costs and overheads, less other income	**(683)**	(652)	(1,229)
Operating profit and profit on ordinary activities before interest	**140**	137	275
Finance charge	**(52)**	(44)	(76)
Profit on ordinary activities before taxation	**88**	93	199
Taxation	**(29)**	(30)	(64)
Profit for the financial period	**59**	63	135
Earnings per ordinary share	**10.0p**	8.6p	18.4p

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

The Mitchells & Butlers group was created on its separation from Six Continents on 15 April 2003. Significant changes were made to the financing structure of the Group on separation which resulted in the replacement of inter company balances owed to Six Continents with external debt. In addition, the Mitchells & Butlers group no longer benefited from the Six Continents group tax arrangements that were in place prior to the separation. The pro forma group profit and loss account therefore presents the Mitchells & Butlers group's results for the 28 weeks ended 12 April 2003 and the 52 weeks ended 30 September 2003 on the basis that the post separation financing and taxation structure had been in place since 1 October 2002. Further details on the calculations of the pro forma finance charge, pro forma tax charge and pro forma earnings per share for these periods are contained in the Annual Report and Financial Statements 2003. In addition, the pro forma group profit and loss account excludes exceptional items, as set out in note 5 to the interim financial statements, for all periods presented.

The Mitchells & Butlers pro forma group profit and loss account does not constitute a statutory profit and loss account within the meaning of Section 240 of the Companies Act 1985 and is unaudited. The profit and loss account of the Mitchells & Butlers group, which has been reviewed by the auditors in accordance with the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board, is shown on page 7.

Group profit and loss account

for the 28 weeks ended 10 April 2004

	notes	2004 28 weeks Before exceptional items £m	2004 28 weeks Total £m	2003 28 weeks restated* Before exceptional items £m	2003 28 weeks restated* Total £m	2003 52 weeks restated* Before exceptional items £m	2003 52 weeks restated* Total £m
Turnover – continuing operations	2	**823**	**823**	789	789	1,504	1,504
Costs and overheads, less other income		**(683)**	**(685)**	(652)	(652)	(1,229)	(1,234)
Operating profit – continuing operations	3	**140**	**138**	137	137	275	270
Separation costs	5	**–**	**–**	–	(42)	–	(42)
Profit on ordinary activities before interest		**140**	**138**	137	95	275	228
Net interest payable	4	**(52)**	**(54)**	(24)	(24)	(55)	(63)
Profit on ordinary activities before taxation		**88**	**84**	113	71	220	165
Tax on profit on ordinary activities	6	**(29)**	**(28)**	(36)	(9)	(71)	(40)
Earnings available for shareholders		**59**	**56**	77	62	149	125
Dividends on equity shares	7	**(516)**	**(516)**	–	–	(29)	(29)
Retained (loss)/profit for the financial period		**(457)**	**(460)**	77	62	120	96
Earnings per ordinary share:	8						
Basic		**–**	**9.5p**	–	8.4p	–	17.0p
Diluted		**–**	**9.4p**	–	8.4p	–	17.0p
Adjusted		**10.0p**	**–**	10.5p	–	20.3p	–
Dividend per ordinary share		**–**	**2.85p**	–	–	–	5.65p

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

Statement of total recognised group gains and losses

for the 28 weeks ended 10 April 2004

	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Earnings available for shareholders	**56**	62	125
Exchange differences arising on foreign currency net investments	**(2)**	6	7
Total recognised gains for the period	**54**	68	132

Reconciliation of movement in group shareholders' funds

for the 28 weeks ended 10 April 2004

	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Total recognised gains for the period	**54**	68	132
Dividends	**(516)**	–	(29)
Issue of ordinary shares	**5**	–	4
Purchase of own shares	**(3)**	–	–
Credit to shareholders' funds in respect of employee share schemes	**5**	–	–
Funding with Six Continents group	**–**	184	184
Arising from separation transaction	**–**	–	(702)
Net (decrease)/increase in shareholders' funds	**(455)**	252	(411)
Opening shareholders' funds	**2,064**	2,475	2,475
Closing shareholders' funds	**1,609**	2,727	2,064

Group balance sheet

10 April 2004

	note	2004 10 April £m	2003 12 April £m	2003 30 Sept £m
Intangible assets		**11**	12	11
Tangible assets		**3,514**	3,530	3,522
Fixed assets		**3,525**	3,542	3,533
Stocks		**43**	47	43
Debtors		**207**	140	197
Amounts falling due within one year		**70**	76	88
Amounts falling due after more than one year		**137**	64	109
Investments		**139**	6	3
Cash at bank and in hand		**72**	7	4
Current assets		**461**	200	247
Creditors: amounts falling due within one year		**(320)**	(820)	(508)
Overdrafts		**–**	–	(13)
Other borrowings		**(36)**	(580)	(221)
Other creditors		**(284)**	(240)	(274)
Net current assets/(liabilities)		**141**	(620)	(261)
Total assets less current liabilities		**3,666**	2,922	3,272
Creditors: amounts falling due after more than one year		**(1,842)**	(1)	(1,001)
Provisions for liabilities and charges		**(215)**	(194)	(207)
Deferred taxation		**(212)**	(188)	(203)
Other provisions		**(3)**	(6)	(4)
Net assets	12	**1,609**	2,727	2,064
Capital and reserves				
Equity share capital		**37**	–	37
Share premium account		**9**	–	4
Revaluation reserve		**340**	–	341
Reserve for own shares		**(3)**	–	–
Profit and loss account		**1,226**	–	1,682
Owners' investment		**–**	2,727	–
Equity shareholders' funds		**1,609**	2,727	2,064

Signed on behalf of the Board
Tim Clarke
Karim Naffah
18 May 2004

Group cash flow statement

for the 28 weeks ended 10 April 2004

	notes	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Operating cash flow before separation costs paid		**199**	213	342
Separation costs paid		**(1)**	(27)	(36)
Net cash inflow from operating activities	9	**198**	186	306
Interest paid		**(49)**	(24)	(51)
Issue costs paid in respect of securitised debt		**(22)**	–	(1)
Facility fees paid		**–**	(7)	(15)
Interest received		**4**	1	2
Returns on investments and servicing of finance		**(67)**	(30)	(65)
UK corporation tax paid		**(9)**	(30)	(44)
Purchase of tangible fixed assets		**(77)**	(80)	(151)
Sale of tangible fixed assets		**29**	19	48
Capital expenditure and financial investment		**(48)**	(61)	(103)
Final dividend for 2002/03		**(29)**	–	–
Special interim dividend for 2003/04		**(501)**	–	–
Equity dividends paid		**(530)**	–	–
Net cash (outflow)/inflow before management of liquid resources and financing		**(456)**	65	94
Movement in short-term deposits		**(136)**	(4)	(1)
Issue of ordinary share capital		**5**	–	4
Purchase of own shares		**(3)**	–	–
Proceeds from issue of securitised debt		**1,900**	–	–
Repayments of principal in respect of securitised debt		**(11)**	–	–
Borrowings drawn down under syndicated loan facility		**25**	–	1,350
Borrowings repaid in respect of syndicated loan facility		**(1,243)**	–	(132)
Repayment of amounts due to Six Continents group		**–**	(254)	(831)
Net funding flows with Six Continents group		**–**	184	193
Cash payment to former Six Continents PLC shareholders		**–**	–	(702)
Management of liquid resources and financing		**537**	(74)	(119)
Movement in cash and overdrafts	11	**81**	(9)	(25)

Notes to the interim financial statements

1. Basis of preparation

The interim financial statements, which are unaudited, comply with relevant accounting standards under UK GAAP and should be read in conjunction with the Annual Report and Financial Statements 2003. They have been prepared using the accounting policies set out in that report on a consistent basis with that applied in 2003, with the following exceptions:

- Turnover – following the publication of the Amendment to FRS 5 'Reporting the substance of transactions: Revenue recognition', the Group has changed its accounting policy to record turnover net of coupons and staff discounts. Prior period comparatives have been restated accordingly. The effect has been to decrease the Group's reported turnover by £8m (2003 28 weeks, £4m; 52 weeks, £9m) with no impact on reported profits.

- Own shares – UITF 38 'Accounting for ESOP Trusts', which applies for the first time in these interim financial statements, requires an entity's own shares held in Employee Share Trusts to be deducted from shareholders' funds rather than being shown as an asset. In addition, as a consequence of UITF 38, the accrual made for the cost of share awards under UITF 17 'Employee Share Schemes' is credited to shareholders' funds. The implementation of UITF 38 has not resulted in a restatement of prior period comparatives.

As explained in note 13, the Group has issued secured loan notes and entered into a number of related interest rate and currency swap agreements during the period. Under the provisions of FRS 4 'Capital instruments', such debt instruments are stated initially at the amount of the proceeds, net of issue costs. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated to periods over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period. Amounts payable and receivable in respect of derivative financial instruments that hedge the related interest rate exposures are treated as part of the finance cost.

The interim financial statements do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.

The financial information for the year ended 30 September 2003 has been extracted from the Group's published financial statements for that year which contain an unqualified audit report and which have been filed with the Registrar of Companies.

The periods ended 10 April 2004 and 12 April 2003 are regarded as distinct financial periods for accounting purposes; income and costs are recognised in the profit and loss account as they arise; tax is charged on the basis of the expected effective tax rate for the full year.

The results of overseas operations have been translated into sterling at weighted average rates of exchange for the period of £1 = €1.46 (2003 28 weeks, £1 = €1.53; 52 weeks, £1 = €1.48) and euro denominated assets and liabilities have been translated into sterling at the rate of exchange at the balance sheet date of £1 = €1.51 (2003 12 April, £1 = €1.45; 30 Sept, £1 = €1.44).

2. Turnover	2004 28 weeks £m	2003 28 weeks restated* £m	2003 52 weeks restated* £m
Pubs & Bars	**485**	464	873
Restaurants	**333**	321	614
Retail	**818**	785	1,487
SCPD	**5**	4	17
Turnover	**823**	789	1,504

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

3. Operating profit	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Pubs & Bars	**92**	91	177
Restaurants	**47**	45	96
Retail	**139**	136	273
SCPD	**1**	1	2
Operating profit before operating exceptional items	**140**	137	275
Operating exceptional items	**(2)**	–	(5)
Operating profit	**138**	137	270

Due to the nature of the operating exceptional items (see note 5), it is not possible to provide a meaningful allocation of the costs to the operating segments.

4. Net interest payable	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Securitised debt	**47**	–	–
Bank overdrafts and loans	**11**	1	41
Six Continents group	**–**	24	24
Interest payable	**58**	25	65
Interest receivable	**(4)**	(1)	(2)
	54	24	63

Interest payable includes an exceptional charge of £2m (2003 28 weeks, £nil; 52 weeks, £8m) relating to the acceleration of facility fee amortisation following the early repayment of the related borrowings on securitisation (see note 13).

5. Exceptional items

	notes	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Operating exceptional items				
Securitisation costs	a	**2**	–	4
Abortive acquisition costs	b	**–**	–	1
		2	–	5
Non-operating exceptional items				
Separation costs	c	**–**	42	42
		2	42	47
Exceptional interest charge	d	**2**	–	8
Total exceptional items before tax		**4**	42	55
Tax credits on above items		**(1)**	(5)	(9)
Exceptional tax credit	e	**–**	(22)	(22)
Total exceptional items after taxation		**3**	15	24

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

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

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

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

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

All exceptional items relate to continuing operations and are excluded from the calculation of adjusted earnings per ordinary share (see note 8).

6. Tax on profit on ordinary activities

	note	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
UK corporation tax		**19**	19	36
Deferred tax		**9**	(10)	4
		28	9	40
Further analysed as tax relating to:				
Profit before exceptional items		**29**	36	71
Exceptional items	5	**(1)**	(27)	(31)
		28	9	40

Tax has been calculated using an estimated effective rate of 32.4% (2003 28 weeks, 32.3%; 52 weeks, 32.3%) on profit on ordinary activities before taxation and exceptional items.

7. Dividends	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Special interim dividend for 2003/04 (68p per 5p ordinary share)	**501**	–	–
Normal interim dividend for 2003/04 (2.85p per 7$^{1}/_{12}$p ordinary share)	**15**	–	–
Final dividend for 2002/03 (5.65p per 7$^{1}/_{12}$p ordinary share)	**–**	–	29
	516	–	29

A special interim dividend for the year ended 30 September 2004 of 68p per 5p ordinary share was paid to shareholders on 8 December 2003 at a total cost of £501m. In connection with the special dividend, a share consolidation was approved by shareholders at an Extraordinary General Meeting held on 1 December 2003 and then implemented on 2 December 2003. The share consolidation resulted in the issue of 12 new ordinary shares of 7$^{1}/_{12}$p each for every 17 existing ordinary shares of 5p each.

8. Earnings per share

Basic earnings per share have been calculated by dividing the earnings available for shareholders of £56m (2003 28 weeks, £62m; 52 weeks, £125m), by 591m (2003 28 weeks, 734m; 52 weeks, 735m), being the weighted average number of ordinary shares, excluding investment in own shares, in issue during the period.

Diluted earnings per share are calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of dilutive ordinary share options outstanding under the Group's share option schemes. The resulting weighted average number of ordinary shares is 595m (2003 28 weeks, 734m; 52 weeks, 736m).

As explained in note 7, in December 2003 the Company combined the payment of a special dividend of 68p per 5p ordinary share with a consolidation of its share capital. These transactions were designed to have the same overall commercial effect, in terms of net assets, earnings and number of shares, as a buy back of shares at fair value. Accordingly, earnings per share for prior periods have not been restated.

Adjusted earnings per ordinary share are calculated as follows:

	note	2004 28 weeks pence per ordinary share	2003 28 weeks pence per ordinary share	2003 52 weeks pence per ordinary share
Basic earnings		**9.5**	8.4	17.0
Exceptional items and tax thereon	5	**0.5**	2.1	3.3
Adjusted earnings		**10.0**	10.5	20.3

Adjusted earnings per ordinary share are disclosed in order to show performance undistorted by abnormal items. However, due to the significant changes made to the financing structure of the Group on separation from Six Continents on 15 April 2003, adjusted earnings per share above does not give a true indication of the underlying performance of the Group for the prior year. Pro forma earnings per share, which adjusts for the changes in the financing structure in the comparative periods, is therefore presented on page 6.

9. Net cash inflow from operating activities	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Operating profit before operating exceptional items	**140**	137	275
Depreciation and amortisation	**57**	54	99
Earnings before interest, taxation, depreciation, amortisation and exceptional items	**197**	191	374
Working capital movement	**44**	22	(3)
Additional pension contributions	**(40)**	–	(27)
Other non-cash items	**2**	–	–
Operating cash flow before expenditure relating to exceptional items	**203**	213	344
Operating exceptional expenditure	**(4)**	–	(2)
Separation costs paid	**(1)**	(27)	(36)
Net cash inflow from operating activities	**198**	186	306

10. Net cash flow	note	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Operating cash flow before expenditure relating to exceptional items*	9	**203**	213	344
Net capital expenditure		**(48)**	(61)	(103)
Operating cash flow after net capital expenditure		**155**	152	241
Net interest paid		**(45)**	(23)	(49)
Tax paid		**(9)**	(30)	(44)
Normal dividends paid		**(29)**	–	–
Issue of ordinary share capital		**5**	–	4
Purchase of own shares		**(3)**	–	–
Special dividends paid		**(501)**	–	–
Operating exceptional expenditure		**(4)**	–	(2)
Separation costs paid		**(1)**	(27)	(36)
Issue costs paid in respect of securitised debt		**(22)**	–	(1)
Facility fees paid		**–**	(7)	(15)
Net cash flow		**(454)**	65	98

*includes £40m (2003 28 weeks, £nil; 52 weeks, £27m) of additional pension contributions.

11. Net debt	notes	2004 28 weeks £m	2003 28 weeks £m	2003 52 weeks £m
Movement in cash and overdrafts		**81**	(9)	(25)
Management of liquid resources and financing activities		**(537)**	74	119
Issue of ordinary share capital		**5**	–	4
Purchase of own shares		**(3)**	–	–
Net cash flow	10	**(454)**	65	98
Issue costs paid in respect of securitised debt		**22**	–	–
Net funding flows with Six Continents group		**–**	184	193
Cash payment to former Six Continents PLC shareholders		**–**	–	(702)
(Increase)/decrease in net debt arising from cash flows		**(432)**	249	(411)
Non-cash movement in net debt		**(7)**	–	–
(Increase)/decrease in net debt		**(439)**	249	(411)
Opening net debt		**(1,228)**	(817)	(817)
Closing net debt		**(1,667)**	(568)	(1,228)
Comprising:				
Cash at bank and in hand		**72**	7	4
Overdrafts		**–**	–	(13)
Cash and overdrafts		**72**	7	(9)
Current asset investments		**139**	6	3
Securitised debt	13	**(1,874)**	–	–
Syndicated loan facility		**–**	–	(1,218)
Other loan notes and finance leases		**(4)**	(4)	(4)
Amounts due to Six Continents group		**–**	(577)	–
		(1,667)	(568)	(1,228)

12. Net assets	2004 10 April £m	2003 12 April £m	2003 30 Sept £m
Pubs & Bars	**2,117**	2,107	2,141
Restaurants	**1,288**	1,346	1,314
Retail	**3,405**	3,453	3,455
SCPD	**21**	20	25
Net operating assets	**3,426**	3,473	3,480
Net debt	**(1,667)**	(568)	(1,228)
Other net non-operating liabilities	**(150)**	(178)	(188)
Net assets	**1,609**	2,727	2,064

13. 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. The funds raised were mainly used to repay existing bank borrowings of £1,243m and return cash to shareholders by way of a special dividend (see note 7).

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

Tranche	£m	Interest	Principal repayment period	Expected WAL
A1	200	Floating	By instalments 2011 to 2028	7 years
A2	550	5.574%	By instalments 2003 to 2028	13 years
A3	250	Floating	By instalments 2011 to 2028	7 years
B1	350	5.965%	By instalments 2003 to 2023	11 years
B2	350	6.013%	By instalments 2015 to 2028	21 years
C	200	6.469%	By instalments 2029 to 2030	26 years
	1,900			

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

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

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

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

The overall cash interest rate payable on the loan notes is 6% after taking account of interest rate hedging and monoline insurance costs.

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

The carrying value of the loan notes in the Group balance sheet at 10 April 2004 is analysed as follows:

	£m
Gross proceeds received on 13 November 2003	1,900
Principal repaid	(11)
Principal outstanding at 10 April 2004	1,889
Deferred issue costs	(23)
Accrued interest	8
Carrying value at 10 April 2004	1,874

14. Pensions

The Group continues to account for pensions under SSAP 24 'Accounting for pension costs'. FRS 17 'Retirement benefits' requires additional disclosures in the notes to the accounts including the surplus or deficit measured on a market value basis. At 30 September 2003, the FRS 17 deficit in the Group's pension schemes was £243m (£170m after tax). At 31 March 2004, it is estimated that the FRS 17 deficit had reduced to £201m (£141m after tax) reflecting the benefit of additional contributions of £40m paid during the period and improved investment returns, after allowing for an increase in life expectancy assumptions.

15. Contingent liabilities

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

Forward-looking statements

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

By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in, or implied by, such forward-looking statements, including, but not limited to: the future balance between supply and demand for the Group's sites, the effect of economic conditions and unforeseen external events on the Group's business, the availability of suitable properties and necessary licences; consumer and business spending; changes in consumer tastes and preferences; levels of marketing and promotional expenditure by Mitchells & Butlers and its competitors; changes in the cost and availability of supplies, key personnel and changes in supplier dynamics; significant fluctuations in exchange rates; interest rates and tax rates; the availability and effects of future business combinations, acquisitions or dispositions, the impact of legal and regulatory actions or developments; the impact of the European Economic and Monetary Union; the ability of Mitchells & Butlers to maintain appropriate levels of insurance; the maintenance of Mitchells & Butlers' IT structure; competition in markets in which Mitchells & Butlers operates; political and economic developments and currency exchange fluctuations; economic recession; management of Mitchells & Butlers' indebtedness and capital resource requirements; material litigation against Mitchells & Butlers; substantial trading activity in Mitchells & Butlers' shares; the reputation of Mitchells & Butlers' brands; the level of costs associated with leased properties; and the weather.

Other factors that could affect the business and the financial results are described in Item 3 Key Information – Risk Factors in the Mitchells & Butlers Form 20-F for the financial year ended 30 September 2003 filed with the United States Securities and Exchange Commission.

Independent review report to Mitchells & Butlers plc

Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 10 April 2004 which comprises the Group profit and loss account, Statement of total recognised group gains and losses, Reconciliation of movement in group shareholders' funds, Group balance sheet, Group cash flow statement and the related notes 1 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the Company for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 28 weeks ended 10 April 2004.

Ernst & Young LLP
London
18 May 2004

Investor information

Six Continents demerger
The share and cash entitlements received by former shareholders of Six Continents PLC on the separation of the Retail and Hotels businesses, together with a summary of the UK capital gains tax treatment of those entitlements, were included in the Company's Interim and Annual Reports 2003 and are set out on the Company's website at http://www.mbplc.com/cgt

Special dividend and share consolidation
A special dividend of 68p per share was paid on 8 December 2003 and was accompanied by a consolidation of share capital whereby shareholders received 12 new ordinary shares for every 17 existing ordinary shares held.

The Company has received advice that the tax treatment of UK resident shareholders who received the special dividend will generally be similar to the tax treatment of such holders receiving any other dividend paid by the Company before April 2004. It has also been advised that UK resident shareholders should not be treated as having made a disposal of their existing ordinary shares for the purposes of UK taxation of chargeable gains as a result of the consolidation.

Dividends
The Board has declared an interim dividend for 2004 of 2.85p per share, payable on 1 July 2004 to shareholders on the register on 28 May 2004.

The Board has also previously announced its intention to recommend a final dividend for 2004 of 6.65p per share and thereafter to adopt a progressive dividend policy to deliver real growth in dividends from the level established in 2004.

Electronic communication
The Company has given e-mail notification to those shareholders who have requested it of the availability of this Interim Report on the Company's website, http://www.mbplc.com/ir04

http://www.mbplc.com/shareholders contains further information on receiving e-mail notification of the availability of shareholder communications via the Company's website, and allows shareholders to register for this service. Shareholders can also access their shareholder accounts and view their balances, the current value of their holding and a range of general information.

Share price information
The latest Mitchells & Butlers plc share price is available on Ceefax and Teletext and also on the Financial Times Cityline Service, telephone 0906 003 1366 (calls charged at 60p per minute).

Contacts
The Company's Registrar is:
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex, BN99 6DA

Telephone 0870 600 3957* (UK callers)
+44 121 433 8000 (non-UK callers)

*For those with hearing loss, a textphone is available on 0870 600 3950 for UK callers with compatible equipment.

The Depositary Bank for the Company's ADR programme is The Bank of New York. Enquiries should be directed to:
The Bank of New York
Shareholder Relations
PO Box 11258
Church Street Station
New York, NY 10286
USA

Telephone +1 (888) 269 2377 (US callers)
+1 610 382 7836 (international callers)
e-mail www.shareowners@bankofny.com

Registered ADR holders wishing to view their account information should visit http://www.stockbny.com
A range of general information about holding ADRs is available on http://www.adrbny.com

Further copies of this report are available from the Company's registered office:
Mitchells & Butlers plc
27 Fleet Street
Birmingham, B3 1JP

Telephone 0870 609 3000

and may also be accessed through the Company's website, http://www.mbplc.com/ir04

Glossary

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.

Post-tax cash return: EBITDA less tax divided by average net operating assets less revaluation reserve plus accumulated depreciation plus goodwill written off.

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

EBITDA: earnings before interest, tax, depreciation, amortisation and exceptional items.

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

Gross profit: sales less cost of goods sold, expressed in monetary terms (£s).

Gross margin: gross profit divided by sales, expressed as a percentage.

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

Outlet: a pub, bar, restaurant, bowling centre or Express by Holiday Inn hotel.

Productivity: sales less hourly paid wages divided by the number of hours worked.

Same outlet (invested) like-for-like sales: sales performance this year compared to the same period in the previous year for outlets open in both years, including those which have had the benefit of capital investment to expand the pub or change the offer i.e. excludes acquisitions and disposals.

Securitisation: a means of raising finance secured on identifiable and predictable cashflows derived from a particular set of assets.

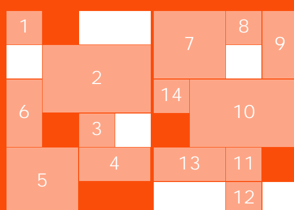
Underlying earnings per share: earnings before exceptional items divided by the average number of shares in issue during the period and compared to the pro forma comparative for the first half last year.

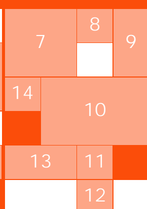
Uninvested like-for-like sales: sales performance this year compared to the same period in the previous year of sites open in both years which have not had the benefit of expansionary capital investment of over £30,000 in either year.

Uninvested like-for-like gross profits: gross profit performance this year compared to the same period in the previous year of sites open in both years which have not had the benefit of expansionary capital investment of over £30,000 in either year.

Key to images

Front cover **Back cover**



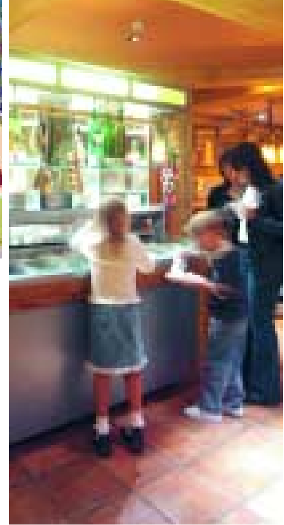


Front cover, clockwise from top left:

1 Deacon Brodie's Tavern, Edinburgh
2 The Flask, Highgate
3 The Trout Inn, Vintage Inns, Oxford
4 The Saxon Mill, Warwick
5 The Black Bull, Ember Inns, Fulwood
6 The Crown, Ember Inns, Croydon

Back cover, clockwise from top left:

7 Swallow's Return, Vintage Inns, Worthing
8 Deer Park, Ember Inns, Leeds
9 Harvester, Barnet
10 Bear's Head, Vintage Inns, Sandbach
11 Flares, Nottingham
12 All Bar One, Canary Wharf
13 Goose, Hatton Garden
14 The Eagle and Child, Oxford



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