



Interim Report and Accounts  
2005

Mitchells  
& Butlers

Turnover

**£864m**

Up 5.0%

EBITDA

**£202m**

Up 5.8%

Operating profit

**£140m**

Up 4.5%

Profit before tax

**£86m**

Up 4.9%

Earnings per share

**11.2p**

Up 20.4%

Basic earnings per share

**11.4p**

Interim dividend

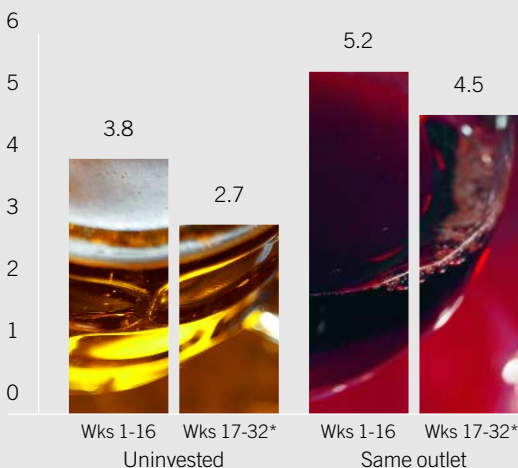
**3.2p**

Up 12.3%

2004 comparatives restated for FRS 17.  
With the exception of basic earnings per share, all results exclude exceptional items.

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

#### Strong like-for-like sales performance %



\*Includes Easter in both years.

Average weekly sales up 8% to £15.9k\*

Food volumes up 9%, drink volumes up 3%

£158m net operating cash flow after capex

Post-tax cash returns above 10%\*

\*52 weeks to 9 April 2005.

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

A cautionary note on forward-looking statements made in this Report is set out on page 18.

# Chairman's statement



Mitchells & Butlers' pubs aim to offer the best hospitality, value and the widest range of products to our customers. We are focused on maximising profitable sales growth to deliver long-term shareholder value whilst being at the forefront of socially responsible retailing.

In the first six months of this year, Mitchells & Butlers has delivered good results with further sales and profits growth and continued strong post-tax cash returns. This has been achieved through our commitment to offering choice and value to customers, combined with our focus on generating efficiency gains from our pub and corporate scale. Our 38,000 employees are the critical element in the continued delivery of this performance; their hard work and dedication is not something we take for granted and I would like to thank them all for their commitment to Mitchells & Butlers.

Our industry has had to contend with many social and regulatory issues over the years, throughout which the pub has shown itself to be highly adaptable to change. In the current wave of change, Mitchells & Butlers will aim to maximise the opportunity for profitable long-term sales growth as well as being at the forefront of socially responsible retailing.

Mitchells & Butlers is concerned about alcohol-related anti-social behaviour and is committed to operating responsibly. Our policy in this area is rigorous and industry-leading. It bans the kind of irresponsible drinks promotions which have rightly attracted public criticism.

We welcome the thrust of the new Licensing Act as it promises to allow more consumer choice whilst granting a voice to local communities. Where we are applying for extensions, our pubs are mostly seeking an extra hour or two of trading, predominantly later in the week, and then only when there is sufficient demand.

On smoking, we believe the Government's proposal to prohibit pubs and bars from allowing

smoking after 2008, where 'food is prepared and sold', risks the unintended consequence of incentivising pubs to remove the provision of food. We support the Act's four year staged approach and welcome the opportunity to participate in the consultation.

## Current trading and outlook

Overall trading is in line with the Board's expectations for the year. There were mixed trading patterns across the first 32 weeks. Despite a noticeable deceleration in the early part of the second quarter, same outlet like-for-like sales growth for the most recent 8 weeks to 7 May was in line with the 32 week trend at 5.1% (3.2% on an uninvested basis). For the most recent 8 weeks, same outlet like-for-like sales in Residential areas were 5.2%, and 5.6% in High Street areas (3.1% and 4.0% respectively on an uninvested basis).

The long-term repositioning of the business is increasingly orientating Mitchells & Butlers towards the higher growth segments of the pub and pub restaurant market offering good value for money.

Our focus on productivity and efficiency gains will remain key to offsetting the external cost pressures with the regulatory and energy cost challenge expected to be similar next year.

Whilst the outlook for consumer spending is deteriorating, we remain confident that our strategy will enable us to capture additional market share and to leverage our economies of scale to generate further growth and cash flows to benefit shareholders.

**Roger Carr**, *Chairman*

# Chief Executive's operating review



In the first 28 weeks of 2005, Mitchells & Butlers has continued to perform well. Total sales growth of 5% has driven operating profit growth of 4.5% and generated 20.4% growth in earnings per share.

## **Value focus drives sales growth**

Our strategy to offer good value to our customers through a widening product range, good service and high quality amenity at fair prices, has generated same outlet like-for-like sales growth of 4.8%, 3.2% on an uninvested basis, for the first 32 weeks of the year.

This strategy to generate profitable sales growth is aimed at attracting a wider customer base, thereby generating higher footfall and more repeat visits. Our brands and formats are focused on the product growth opportunities in food and ancillary sales of wines and soft drinks where demand growth is greatest. At the same time, we are equally focused on market share gains in the declining on-trade beer market through continuing our policy of range extension and pricing restraint. The relative growth rates of these product categories has resulted in a different profit performance between the Restaurants and Pubs & Bars divisions. However, we have continued to grow our market share in all of the key sales categories of food, beer, wines, soft drinks and spirits.

## **Delivering growth in gross profits**

Whilst increasing turnover is important, our overriding objective is to grow sales volumes in order to maximise gross profits. All our sales activity is gauged to ensure that we are gaining adequate volume to offset any margin investment. Our 5% sales growth was achieved with percentage gross margin in line with last year. This was despite the pressure from contractual price increases and the movement in sales mix towards food and wine rather than the lower growth, albeit higher margin, categories of beer and machines.

## **Extracting volume-driven efficiency benefits**

Extracting maximum benefit from our growing volume is critical given the £18m increase in regulatory and energy costs anticipated for the year. Of this increase, £10m has arisen in the first half. Our volume scale has enabled us to maintain our unit cost of goods at last year's levels despite the contractual increases in our tied supply contracts. In addition, through ever more effective scheduling of staff hours to match sales patterns and by enhancing our capacity management skills to capture incremental sales we have maintained our employment costs at 24% of sales.

## **Strong brand performance from estate development**

Our five key residential brands and our Central London formats are performing particularly well. We continue to evolve our existing brands and formats and develop and trial new ones that can add to the sales and profits of the estate. These are particularly focused on extending the attractiveness of our food offers. We are currently generating an incremental return on investment of 19% before tax on the projects that we have invested in in 2004 and the first half of 2005.

At the same time, maintaining the high quality of amenity within the estate and evolving our offers through regular maintenance is a deliberate part of our strategy and key to the sustainability of our market share gains.

## **Proactive use of cash resources**

Our objective is to grow our profits, improve the returns from the estate and generate cash. The net cash inflow for the period was £12m, after payments of £52m to repurchase shares as part of our £100m share buy back and £30m,

being our full commitment of additional pension contributions this financial year.

### A strong first half in a challenging environment

In the first half of 2005 both the operational and financial performance of the business has been strong. We have generated good growth in sales and earnings per share, strong cash flows and post-tax cash returns of over 10%. As we go forward, our focus on strong consumer brands and formats, widening product range, high quality amenity, and customer value should stand us in good stead in a more challenging consumer environment. We will concentrate on growing profits and generating cash flows. We will continue to redeploy our cash resources in the best interest of shareholders, through reinvestment for high returns, value creative acquisitions or return by way of dividend and share buy back.

### Financial Review

This Financial Review provides a commentary on the performance of the Mitchells & Butlers group for the 28 weeks ended 9 April 2005 and compares it with the equivalent half year period in 2004. To remove the distortions from the timing of Easter, where appropriate, comparisons are made on a 32 week basis. Comparative figures for 2004 have been restated for FRS 17.

### Overall performance

Sales momentum has been sustained with total sales in the first half up 5.0% on last year at £864m. We have continued to gain market share in our Residential pubs and High Street businesses in the face of a softer second quarter trading environment.

	Same outlet (invested)* like-for-like	Uninvested* like-for-like
Residential	5.7%	3.8%
High Street	3.5%	2.5%
Total	4.8%	3.2%

\*32 weeks to 7 May. Includes Easter in both years.

Through our sales and marketing activities we have successfully grown both food and drink

volumes in the period, up 9% and 3% respectively on a same outlet basis, with average prices remaining broadly flat.

We have also driven organic growth in the estate through investment of £88m in the period. Expansionary capital of £31m was invested in 4 new pubs, 46 conversions to our brands or formats and the development of 3 Innkeepers Lodges adjacent to existing pubs. We are achieving an incremental return on investment of 19% before tax on the projects that we have invested in in 2004 and the first half of 2005. £57m was invested in maintaining the high levels of amenity within our pubs and in the continuing evolution of our brands and formats.

We have achieved £42m of disposal proceeds from the opportunistic sale of 26 individual pubs, taking advantage of the continued buoyancy in the property market in the early part of the year. As a result, our net capital investment was £46m and we expect our net capital expenditure for the full year to be between £100m and £110m.

Productivity improvements, purchasing benefits and tight cost management have enabled us to offset regulatory and energy cost increases of some £10m in the period.

As a result of our progress, operating profit before exceptional items increased by £6m, up 4.5%, to £140m.

### Pubs & Bars

	H1 2005	
Total sales	£500m	+3.1%
Operating profit	£86m	-2.3%
Same outlet like-for-like sales		+3.1%*
Uninvested like-for-like sales		+1.9%*

\*32 weeks to 7 May. Includes Easter in both years.

Sales in the Pubs & Bars Division were 3.1% ahead of last year. Despite further volume declines in the on-trade beer market and ongoing price competition from supermarkets, drinks sales showed good growth as a result of our continuing

development of the range of products and price points that we offer. Our branded local pubs in residential areas with strong food offers and our Central London pubs performed very strongly. By contrast, our unbranded local pubs with a lower food sales mix were more exposed to the beer market declines and our High Street circuit bars continued to face intense competitive conditions. During the period, 19 pubs were sold and 16 were transferred to operate under franchise agreements.

A total of 25 conversions were completed, predominantly to residential brands and formats such as Sizzling Pub Co, Ember Inns and the Metropolitan Professionals format. One new Ember Inn opened in the period, the first new site acquisition for this brand.

The increase in sales has only partially offset the impact of regulatory, energy and Sky cost increases for the Pubs & Bars Division and this, together with some dilution from disposals, has resulted in operating profit being down 2% on last year at £86m.

## Restaurants

	H1 2005	
Total sales	£356m	+6.9%
Operating profit	£53m	+17.8%
Same outlet like-for-like sales		+7.4%*
Uninvested like-for-like sales		+5.3%*

\*32 weeks to 7 May. Includes Easter in both years.

The Restaurant Division has produced an excellent performance. This has been achieved by the strength of our brands and operating skills in driving high cover volumes; a Mitchells & Butlers pub restaurant now sells on average some 1,700 main meals per week. Sales benefited from continuing menu development combined with drinks value and range enhancements to drive higher footfall and volumes. All our key brands of Vintage Inns, Harvester, Toby and All Bar One performed very strongly. Through increasing the variety of dishes and extending the range of tastes, we have been enhancing choice and attracting a wider customer base.

We opened two new Vintage Inns and one Toby in the period. In addition, 21 pubs were converted to existing brands and formats and our more recent offer development in the premium country dining market segment.

The strong trading result for the Restaurant Division, together with tight cost controls and productivity improvements, have maximised the profit impact of the increase in sales and enhanced operating margins, giving an operating profit of £53m, up 17.8% on 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 £8m and operating profit of £1m were generated during the period primarily through the sale of two developments in Burton on Trent and Bournemouth.

## Exceptional items

There were no operating exceptional items during the period. A non-operating exceptional profit of £1m arose on the disposal of fixed assets.

## Interest

The net interest charge for the half year was £54m being interest charged on net debt of £55m less finance income in respect of pensions of £1m. The increase on the prior year was a result of the completion of the refinancing part way through the prior period.

## Taxation

The tax charge of £28m represents an effective tax rate of 32.4%, before exceptional items, which is unchanged from 2003/4. This is higher than the UK statutory rate due to non-allowable items, in particular the depreciation of properties.

## Earnings per share

Adjusted earnings per share, which adjusts for exceptional items, were up 20.4% at 11.2p from 9.3p. Basic earnings per share for the period were 11.4p up from 8.8p last year.

## Dividends

The dividend charge for the period of £16m

represents the proposed interim dividend of 3.2p per ordinary share and will be paid on 30 June 2005 to shareholders registered on 27 May 2005.

### **Cash flow and net debt**

The Group's operations continued to generate strong cash flow with EBITDA of £202m, before exceptional items, compared to £191m last year. Operating cash flow was £158m compared with £155m last year, after working capital movements, net capital expenditure of £46m and additional pension contributions of £30m.

Net interest paid was £51m, tax paid was £22m and the final dividend for 2003/4 was £34m. Following the share buy back and income from the exercise of share options, there was a net cash inflow of £12m. The Group had net debt at 9 April 2005 of £1,625m.

### **Share buy back**

The Group repurchased 15.5m shares during the period for a consideration of £52m. 10.2m shares were cancelled and 5.3m shares were placed in Treasury or Employee Trusts to satisfy the exercise of existing share options.

### **Pensions**

On an FRS 17 basis, the Group's pension schemes showed a deficit of £122m (£81m after deferred tax) at 9 April 2005. This represents an improvement of £51m from the deficit reported at 25 September 2004 as a result of the additional £30m of pension contributions paid during the period and improved investment returns. The Company has committed to make further additional contributions of £20m and £10m in 2005/6 and 2006/7 respectively.

### **Accounting policies**

The Group has adopted FRS 17 'Retirement Benefits' in full with effect from 26 September 2004. In prior years, the Group has complied with the transitional disclosure requirements of this standard. The full adoption of FRS 17 has resulted in a change in the accounting treatment of the Group's defined benefit arrangements. In particular, the net liabilities of the pension schemes are included on the balance sheet,

current service costs and net financial returns are included in the profit and loss account and actuarial gains and losses are recognised in the statement of total recognised group gains and losses. Previous accounting under SSAP 24 'Accounting for Pensions Costs' required the charging of regular costs and variations from regular cost in the profit and loss account with the difference between the cumulative amounts charged and the payments made to the pensions schemes shown as a prepayment on the balance sheet. This change in accounting policy has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly. Full details of the restatement are set out in note 2 of the Financial Statements.

### **IFRS update**

Mitchells & Butlers will present its financial statements under IFRS for the first time in the year to 30 September 2006, including the interim accounts for that year.

Whilst IFRS will require a number of accounting changes, these will have no impact on cash flow. Mitchells & Butlers has an ongoing implementation project in place to ensure a smooth transition to IFRS. This project is progressing well and is on track. Work is ongoing in the areas of fixed assets and leases and final audited numbers may differ from those estimated.

As the Group has adopted FRS 17 for 2004/5, there is not expected to be a material adjustment to pensions accounting from IFRS subject to the endorsement of the amendments to IAS 19 by the EU.

Based on our evaluation to date which is unaudited, it is anticipated that the annual net impact of IFRS on reported earnings will be broadly neutral and will reduce net assets by up to £250m, predominantly due to additional deferred tax provisions.

A further update will be provided at the time of the Preliminary Results.

**Tim Clarke, Chief Executive**

# Group profit and loss account

for the 28 weeks ended 9 April 2005

		2005 28 weeks		2004 28 weeks restated*		2004 52 weeks restated*	
	notes	Before exceptional items £m	Total £m	Before exceptional items £m	Total £m	Before exceptional items £m	Total £m
<b>Turnover</b>	3	<b>864</b>	<b>864</b>	823	823	1,560	1,560
Costs and overheads, less other income		<b>(724)</b>	<b>(724)</b>	(689)	(691)	(1,287)	(1,289)
<b>Operating profit</b>	4	<b>140</b>	<b>140</b>	134	132	273	271
Profit on disposal of fixed assets	5	–	<b>1</b>	–	–	–	2
<b>Profit on ordinary activities before interest</b>		<b>140</b>	<b>141</b>	134	132	273	273
Interest on net debt	6	<b>(55)</b>	<b>(55)</b>	(52)	(54)	(101)	(103)
Net finance income in respect of pensions	14	<b>1</b>	<b>1</b>	–	–	1	1
<b>Profit on ordinary activities before taxation</b>		<b>86</b>	<b>87</b>	82	78	173	171
Tax on profit on ordinary activities	7	<b>(28)</b>	<b>(28)</b>	(27)	(26)	(56)	(53)
<b>Earnings available for shareholders</b>		<b>58</b>	<b>59</b>	55	52	117	118
Dividends on equity shares	8	<b>(16)</b>	<b>(16)</b>	(516)	(516)	(550)	(550)
<b>Retained profit/(loss) for the financial period</b>		<b>42</b>	<b>43</b>	(461)	(464)	(433)	(432)
<b>Earnings per ordinary share:</b>	9						
Basic		–	<b>11.4p</b>	–	8.8p	–	21.1p
Diluted		–	<b>11.2p</b>	–	8.7p	–	21.0p
Adjusted		<b>11.2p</b>	–	9.3p	–	20.9p	–
<b>Dividend per ordinary share</b>		–	<b>3.20p</b>	–	2.85p	–	9.50p

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

All activities relate to continuing operations.

# Statement of total recognised group gains and losses

for the 28 weeks ended 9 April 2005

		2005 28 weeks	2004 28 weeks restated*	2004 52 weeks restated*
	note	£m	£m	£m
<b>Earnings available for shareholders</b>		<b>59</b>	52	118
Actuarial gain on pension schemes	14	<b>21</b>	9	39
Deferred tax relating to actuarial gain		<b>(6)</b>	(3)	(12)
Exchange differences arising on foreign currency net investments		–	(2)	(1)
<b>Total recognised gains for the period</b>		<b>74</b>	56	144
Prior period adjustment on the full adoption of FRS 17	2	<b>(219)</b>		
<b>Total recognised losses since previous year end</b>		<b>(145)</b>		

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

# Reconciliation of movement in group shareholders' funds

for the 28 weeks ended 9 April 2005

		2005 28 weeks	2004 28 weeks restated*	2004 52 weeks restated*
		£m	£m	£m
<b>Total recognised gains for the period</b>		<b>74</b>	56	144
Dividends		<b>(16)</b>	(516)	(550)
Issue of ordinary shares		<b>2</b>	5	8
Purchase of own shares		<b>(52)</b>	(3)	(12)
Proceeds on release of own shares held		<b>11</b>	–	1
Credit in respect of employee share schemes		<b>2</b>	5	7
<b>Net increase/(decrease) in shareholders' funds</b>		<b>21</b>	(453)	(402)
Opening shareholders' funds as previously reported		<b>1,642</b>	2,064	2,064
Prior period adjustment on the full adoption of FRS 17		<b>(219)</b>	(239)	(239)
<b>Opening shareholders' funds as restated</b>		<b>1,423</b>	1,825	1,825
<b>Closing shareholders' funds</b>		<b>1,444</b>	1,372	1,423

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

# Group balance sheet

9 April 2005

	notes	2005 9 April £m	2004 10 April restated* £m	2004 25 Sept restated* £m
Intangible assets		10	11	10
Tangible assets		3,503	3,514	3,509
<b>Fixed assets</b>		<b>3,513</b>	<b>3,525</b>	<b>3,519</b>
Stocks		39	43	43
Debtors		80	70	82
Investments		130	139	144
Cash at bank and in hand		90	72	81
<b>Current assets</b>		<b>339</b>	<b>324</b>	<b>350</b>
Creditors: amounts falling due within one year				
Borrowings		(36)	(36)	(35)
Other creditors		(304)	(284)	(291)
<b>Net current (liabilities)/assets</b>		<b>(1)</b>	<b>4</b>	<b>24</b>
<b>Total assets less current liabilities</b>		<b>3,512</b>	<b>3,529</b>	<b>3,543</b>
Creditors: amounts falling due after more than one year				
Borrowings		(1,809)	(1,842)	(1,822)
Provisions for liabilities and charges				
Deferred taxation		(176)	(178)	(182)
Other provisions		(2)	(3)	(2)
<b>Net assets before net pension liabilities</b>		<b>1,525</b>	<b>1,506</b>	<b>1,537</b>
Net pension liabilities	14	(81)	(134)	(114)
<b>Net assets</b>	10	<b>1,444</b>	<b>1,372</b>	<b>1,423</b>
<b>Capital and reserves</b>				
Equity share capital		36	37	37
Share premium account		14	9	12
Capital redemption reserve		1	–	–
Revaluation reserve	15	335	340	339
Profit and loss account**		1,058	986	1,035
<b>Equity shareholders' funds</b>		<b>1,444</b>	<b>1,372</b>	<b>1,423</b>

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

\*\*After deduction for own shares held in treasury and by employee share trusts of £15m (2004 10 April, £3m; 25 September, £11m).

Signed on behalf of the Board

**Tim Clarke**

**Karim Naffah**

18 May 2005

# Group cash flow statement

for the 28 weeks ended 9 April 2005

	notes	2005 28 weeks £m	2004 28 weeks £m	2004 52 weeks £m
Operating cash flow before separation costs paid		204	199	379
Separation costs paid		–	(1)	(1)
<b>Net cash inflow from operating activities</b>	11	<b>204</b>	198	378
Interest paid		(57)	(49)	(107)
Issue costs paid in respect of securitised debt		–	(22)	(22)
Interest received		6	4	9
<b>Returns on investments and servicing of finance</b>		<b>(51)</b>	(67)	(120)
<b>UK corporation tax paid</b>		<b>(22)</b>	(9)	(34)
Purchase of tangible fixed assets		(88)	(77)	(150)
Sale of tangible fixed assets		42	29	51
<b>Capital expenditure and financial investment</b>		<b>(46)</b>	(48)	(99)
Final dividend		(34)	(29)	(29)
Normal interim dividend		–	–	(15)
Special interim dividend		–	(501)	(501)
<b>Equity dividends paid</b>		<b>(34)</b>	(530)	(545)
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<b>51</b>	(456)	(420)
Movement in short-term deposits		14	(136)	(141)
Issue of ordinary share capital		2	5	8
Purchase of own shares		(52)	(3)	(12)
Proceeds on release of own shares held		11	–	1
Proceeds from issue of securitised debt		–	1,900	1,900
Repayments of principal in respect of securitised debt		(17)	(11)	(28)
Borrowings drawn down under syndicated loan facility		–	25	25
Borrowings repaid in respect of syndicated loan facility		–	(1,243)	(1,243)
<b>Management of liquid resources and financing</b>		<b>(42)</b>	537	510
<b>Movement in cash and overdrafts</b>	13	<b>9</b>	81	90

# 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 2004. They have been prepared on a consistent basis using the accounting policies set out in that report, except in respect of pensions accounting as explained in note 2 below.

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 52 weeks ended 25 September 2004 has been extracted from the Group's published financial statements for that year, restated for the adoption of FRS 17, which contain an unqualified audit report and which have been filed with the Registrar of Companies.

The periods ended 9 April 2005 and 10 April 2004 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 = €1.43 (2004 28 weeks, £1 = €1.46; 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 = €1.46 (2004 10 April, £1 = €1.51; 25 Sept, £1 = €1.47).

## 2. Change in accounting policy

The Group has adopted FRS 17 'Retirement Benefits' in full with effect from 26 September 2004. In prior years, the Group has complied with the transitional disclosure requirements of this standard. The full adoption of FRS 17 has resulted in a change in the accounting treatment of the Group's defined benefit arrangements. In particular, the net liabilities of the pension schemes are included on the balance sheet, current service costs and net financial returns are included in the profit and loss account and actuarial gains and losses are recognised in the statement of total recognised group gains and losses. Further information on FRS 17 is provided in note 14. Previous accounting under SSAP 24 'Accounting for Pension Costs' required the charging of regular costs and variations from regular cost in the profit and loss account with the difference between the cumulative amounts charged and the payments made to the pension schemes shown as a prepayment on the balance sheet. This change in accounting policy has been accounted for as a prior period adjustment and previously reported figures have been restated accordingly, as follows:

### Group profit and loss account

	Profit before interest £m	Interest £m	Tax £m	Profit for the period £m
<b>28 weeks to 10 April 2004:</b>				
As previously reported	138	(54)	(28)	56
Adoption of FRS 17	(6)	–	2	(4)
As restated	132	(54)	(26)	52
<b>52 weeks to 25 September 2004:</b>				
As previously reported	285	(103)	(57)	125
Adoption of FRS 17	(12)	1	4	(7)
As restated	273	(102)	(53)	118

## 2. Change in accounting policy continued

The restated profits have resulted in restated EPS numbers. For the 28 weeks to 10 April 2004, basic, adjusted and diluted EPS have been restated from 9.5p, 10.0p and 9.4p to 8.8p, 9.3p and 8.7p respectively. For the 52 weeks to 25 September 2004, basic, adjusted and diluted EPS have been restated from 22.4p, 22.2p and 22.2p to 21.1p, 20.9p and 21.0p respectively.

### Group balance sheet

	Debtors £m	Provisions for liabilities & charges £m	Net pension liabilities £m	Profit and loss account reserve £m
<b>10 April 2004:</b>				
As previously reported	207	(215)	–	1,223
Adoption of FRS 17	(137)	34	(134)	(237)
As restated	70	(181)	(134)	986
<b>25 September 2004:</b>				
As previously reported	222	(219)	–	1,254
Adoption of FRS 17	(140)	35	(114)	(219)
As restated	82	(184)	(114)	1,035

## 3. Turnover

	2005 28 weeks £m	2004 28 weeks £m	2004 52 weeks £m
Pubs & Bars	500	485	913
Restaurants	356	333	641
Retail	856	818	1,554
SCPD	8	5	6
<b>Turnover</b>	<b>864</b>	<b>823</b>	<b>1,560</b>

## 4. Operating profit

	note	2005 28 weeks £m	2004 28 weeks restated* £m	2004 52 weeks restated* £m
Pubs & Bars		86	88	173
Restaurants		53	45	99
Retail		139	133	272
SCPD		1	1	1
<b>Operating profit before operating exceptional items</b>		<b>140</b>	<b>134</b>	<b>273</b>
Operating exceptional items	5	–	(2)	(2)
<b>Operating profit</b>		<b>140</b>	<b>132</b>	<b>271</b>

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

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.

<b>5. Exceptional items</b>	notes	<b>2005 28 weeks £m</b>	2004 28 weeks £m	2004 52 weeks £m
<b>Operating exceptional items</b>				
Securitisation costs	a	–	(2)	(2)
<b>Non-operating exceptional items</b>				
Profit on disposal of fixed assets		<b>1</b>	–	2
<b>Total exceptional items before interest</b>		<b>1</b>	(2)	–
<b>Exceptional interest charge</b>	b	–	(2)	(2)
<b>Total exceptional items before tax</b>		<b>1</b>	(4)	(2)
Tax credits on above items		–	1	3
<b>Total exceptional items after tax</b>		<b>1</b>	(3)	1

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

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

All exceptional items relate to continuing operations and are excluded from the calculation of adjusted earnings per ordinary share (see note 9).

<b>6. Interest on net debt</b>	note	<b>2005 28 weeks £m</b>	2004 28 weeks £m	2004 52 weeks £m
Securitised debt		<b>61</b>	47	100
Bank overdrafts and loans				
– before exceptional charge		–	9	10
– exceptional charge	5	–	2	2
Interest payable		<b>61</b>	58	112
Interest receivable		<b>(6)</b>	(4)	(9)
		<b>55</b>	54	103

		<b>2005</b>	2004	2004
		<b>28 weeks</b>	28 weeks	52 weeks
			restated*	restated*
<b>7. Tax on profit on ordinary activities</b>	note	<b>£m</b>	£m	£m
UK corporation tax		<b>21</b>	19	43
Deferred tax		<b>7</b>	7	10
		<b>28</b>	26	53
Further analysed as tax relating to:				
Profit before exceptional items		<b>28</b>	27	56
Exceptional items	5	–	(1)	(3)
		<b>28</b>	26	53

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

Tax has been calculated using an estimated effective rate of 32.4% (2004 28 weeks, 32.4%; 52 weeks, 32.4%) on profit on ordinary activities before taxation and exceptional items.

		<b>2005</b>	2004	2004
		<b>28 weeks</b>	28 weeks	52 weeks
		<b>£m</b>	£m	£m
<b>8. Dividends</b>				
Normal interim dividend		<b>16</b>	15	15
Special interim dividend		–	501	501
Final dividend		–	–	34
		<b>16</b>	516	550

### 9. Earnings per share

Basic earnings per ordinary share have been calculated by dividing the earnings available for shareholders of £59m (2004 28 weeks, £52m; 52 weeks, £118m), by 517m (2004 28 weeks, 591m; 52 weeks, 559m), being the weighted average number of ordinary shares, excluding own shares held in treasury and by employee share trusts, in issue during the period.

Diluted earnings per ordinary 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 525m (2004 28 weeks, 595m; 52 weeks, 563m).

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

**9. Earnings per share** continued

Adjusted earnings per ordinary share are calculated as follows:

		<b>2005</b>	2004	2004
		<b>28 weeks</b>	28 weeks	52 weeks
		<b>pence per</b>	pence per	pence per
		<b>ordinary</b>	ordinary	ordinary
	note	<b>share</b>	share	share
Basic earnings		<b>11.4</b>	8.8	21.1
Exceptional items and tax thereon	5	<b>(0.2)</b>	0.5	(0.2)
<b>Adjusted earnings</b>		<b>11.2</b>	9.3	20.9

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

Adjusted earnings per ordinary share are disclosed in order to show performance undistorted by abnormal items.

		<b>2005</b>	2004	2004
		<b>9 April</b>	10 April	25 Sept
		<b>£m</b>	restated*	restated*
			£m	£m
<b>10. Net assets</b>				
Pubs & Bars		<b>2,068</b>	2,117	2,106
Restaurants		<b>1,318</b>	1,288	1,320
Retail		<b>3,386</b>	3,405	3,426
SCPD		<b>15</b>	21	19
<b>Net operating assets</b>		<b>3,401</b>	3,426	3,445
Net debt		<b>(1,625)</b>	(1,667)	(1,632)
Other net non-operating liabilities		<b>(332)</b>	(387)	(390)
<b>Net assets</b>		<b>1,444</b>	1,372	1,423

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

	<b>2005</b>	2004	2004
	<b>28 weeks</b>	28 weeks	52 weeks
		restated*	restated*
<b>11. Net cash inflow from operating activities</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Operating profit before operating exceptional items	<b>140</b>	134	273
Depreciation and amortisation	<b>62</b>	57	108
<b>Earnings before interest, taxation, depreciation, amortisation and exceptional items</b>	<b>202</b>	191	381
Working capital movement	<b>29</b>	43	28
Additional pension contributions	<b>(30)</b>	(40)	(40)
Other non-cash items	<b>3</b>	9	14
<b>Operating cash flow before expenditure relating to exceptional items</b>	<b>204</b>	203	383
Operating exceptional expenditure	–	(4)	(4)
Separation costs paid	–	(1)	(1)
<b>Net cash inflow from operating activities</b>	<b>204</b>	198	378

\*Restated on the full adoption of FRS 17 'Retirement Benefits' (see note 2).

		<b>2005</b>	2004	2004
		<b>28 weeks</b>	28 weeks	52 weeks
	note	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>12. Net cash flow</b>				
<b>Operating cash flow before expenditure relating to exceptional items*</b>	11	<b>204</b>	203	383
Net capital expenditure		<b>(46)</b>	(48)	(99)
<b>Operating cash flow after net capital expenditure</b>		<b>158</b>	155	284
Net interest paid		<b>(51)</b>	(45)	(98)
Tax paid		<b>(22)</b>	(9)	(34)
Normal dividends paid		<b>(34)</b>	(29)	(44)
Issue of ordinary share capital		<b>2</b>	5	8
Purchase of own shares		<b>(52)</b>	(3)	(12)
Proceeds on release of own shares held		<b>11</b>	–	1
Special dividends paid		–	(501)	(501)
Operating exceptional expenditure		–	(4)	(4)
Separation costs paid		–	(1)	(1)
Issue costs paid in respect of securitised debt		–	(22)	(22)
<b>Net cash flow</b>		<b>12</b>	(454)	(423)

\*Includes £30m (2004 28 weeks, £40m; 52 weeks, £40m) of additional pension contributions.

		2005	2004	2004
	note	28 weeks	28 weeks	52 weeks
		£m	£m	£m
<b>13. Net debt</b>				
Movement in cash and overdrafts		9	81	90
Management of liquid resources and financing		42	(537)	(510)
Issue of ordinary share capital		2	5	8
Purchase of own shares		(52)	(3)	(12)
Proceeds on release of own shares held		11	-	1
<b>Net cash flow</b>	12	<b>12</b>	<b>(454)</b>	<b>(423)</b>
Issue costs paid in respect of securitised debt		-	22	22
<b>Decrease/(increase) in net debt arising from cash flows</b>		<b>12</b>	<b>(432)</b>	<b>(401)</b>
Non-cash movement in net debt		(5)	(7)	(3)
<b>Decrease/(increase) in net debt</b>		<b>7</b>	<b>(439)</b>	<b>(404)</b>
Opening net debt		(1,632)	(1,228)	(1,228)
<b>Closing net debt</b>		<b>(1,625)</b>	<b>(1,667)</b>	<b>(1,632)</b>
Comprising:				
Cash at bank and in hand		90	72	81
Current asset investments		130	139	144
Securitised debt (see below)		(1,841)	(1,874)	(1,853)
Other loan notes and finance leases		(4)	(4)	(4)
		<b>(1,625)</b>	<b>(1,667)</b>	<b>(1,632)</b>

**Securitised debt**

The securitised debt was issued on 13 November 2003 in connection with the securitisation of the majority of the Group's UK pubs and restaurants business. The debt was issued in six loan note tranches raising £1,900m, before issue costs of £23m. The overall cash interest rate payable on the loan notes is fixed at 6% after taking account of interest rate hedging and monoline insurance costs. The notes are secured on substantially all of the Group's property and future income streams therefrom.

The carrying value of the secured loan notes in the Group balance sheet at 9 April 2005 is analysed as follows:

	£m
Principal outstanding at 26 September 2004	1,872
Principal repaid during the period	(17)
Principal outstanding at 9 April 2005	1,855
Deferred issue costs	(21)
Accrued interest	7
<b>Carrying value at 9 April 2005</b>	<b>1,841</b>

#### 14. Pensions

As explained in note 2, the Group has adopted FRS 17 in full during the period resulting in a restatement of prior period comparatives. Amounts (charged)/credited to profit in respect of the Group's defined benefit arrangements under FRS 17 are as follows:

	2005 28 weeks £m	2004 28 weeks £m	2004 52 weeks £m
<b>Operating profit</b>			
Current service costs	(7)	(7)	(14)
<b>Finance income</b>			
Expected return on pension scheme assets	33	30	57
Interest on pension scheme liabilities	(32)	(30)	(56)
<b>Net finance income</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Total charge</b>	<b>(6)</b>	<b>(7)</b>	<b>(13)</b>

Under FRS 17 the requirement to perform a full valuation of the Group's pension schemes applies at the end of each financial year. At the half year, the previous year end valuation is updated for market related movements, being the market value of scheme assets and the discount rate used for liabilities. Accordingly, net FRS 17 pension liabilities are analysed as follows:

	2005 9 April £m	2004 10 April £m	2004 25 Sept £m
Total market value of assets	1,001	895	915
Present value of scheme liabilities	(1,123)	(1,096)	(1,088)
<b>Deficit in the schemes</b>	<b>(122)</b>	<b>(201)</b>	<b>(173)</b>
Related deferred tax asset	41	67	59
<b>Net pension liabilities</b>	<b>(81)</b>	<b>(134)</b>	<b>(114)</b>

Movements in the scheme deficits are analysed as follows:

	2005 28 weeks £m	2004 28 weeks £m	2004 52 weeks £m
At beginning of period	(173)	(243)	(243)
Current service cost	(7)	(7)	(14)
Contributions	36	40	44
Net finance income	1	-	1
Actuarial gain	21	9	39
<b>At end of period</b>	<b>(122)</b>	<b>(201)</b>	<b>(173)</b>

## 15. Revaluation reserve

In 1996, a group restructuring by Six Continents resulted in the transfer at book value of certain fixed assets to a subsidiary that subsequently became part of the Mitchells & Butlers group. The book value included the effect of revaluations undertaken prior to 1996. Accordingly, the carrying value of the Group's fixed assets reflects those revaluations in its historic cost, which at 9 April 2005 amounted to £388m (2004 28 weeks, £395m; 52 weeks, £392m). In addition, the carrying value of the Group's fixed assets reflects the most recent valuation of the properties undertaken in 1999 which at 9 April 2005 amounted to £335m (2004 28 weeks, £340m; 52 weeks, £339m).

## 16. 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.

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## Cautionary note regarding forward-looking statements

This Interim Report and Accounts 2005 contains 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 of the plans and objectives of the Board of Directors with respect thereto. 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 such words as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe' or other words of similar meaning.

The forward-looking statements contained in this Report are based on assumptions and assessments made by the 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, and 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. These factors include, but are not limited to: the future balance between supply and demand for Mitchells & Butlers' sites; the effect of economic conditions and unforeseen external events on Mitchells & Butlers' 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 any 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.

## Introduction

We have been instructed by the Company to review the financial information for the 28 weeks ended 9 April 2005 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 16. 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 9 April 2005.

**Ernst & Young LLP**

London

18 May 2005

## Electronic communication

The Company has given email notification to those shareholders, who have requested it, of the availability of this Interim Report on the Company's website, [www.mbplc.com/ir05](http://www.mbplc.com/ir05)

[www.mbplc.com/shareholders](http://www.mbplc.com/shareholders) contains further information on receiving email 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.

## Dividend

The Board has declared an interim dividend for 2005 of 3.2p per share, payable on 30 June 2005 to shareholders on the register on 27 May 2005.

## Dividend mandate

Shareholders who wish dividends to be paid directly into a bank/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.

## 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.

## 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).

## Corporate Social Responsibility Review

We are proud to announce the launch of the Mitchells & Butlers Corporate Social Responsibility Review 2004. It is published on the Company's website and can be downloaded directly by visiting [www.mbplc.com/csreview](http://www.mbplc.com/csreview). If you do not have access to the internet and would like a printed copy, please write to the Communications Department at the registered office shown opposite.

## American Depositary Receipts ('ADRs')

The Company has announced that it is terminating its ADR programme and will seek to delist from the New York Stock Exchange. ADR holders requiring information should contact The Bank of New York at the address below.

## AGM voting

All resolutions put to the AGM on 26 January 2005 were passed on a show of hands. Details of the proxy votes tendered for that meeting are set out on the Company's website, [www.mbplc.com/AGMvoting](http://www.mbplc.com/AGMvoting)

## Contacts

The Company's Registrar is:  
Lloyds TSB Registrars  
The Causeway  
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West Sussex, BN99 6DA  
Telephone 0870 241 3930\* (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 (non-US callers)  
email [www.shareowners@bankofny.com](mailto:www.shareowners@bankofny.com)

Registered ADR holders wishing to view their account information should visit [www.stockbny.com](http://www.stockbny.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, [www.mbplc.com/ir05](http://www.mbplc.com/ir05)

**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, calculated on a 52 week basis.

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

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

**Capacity management:** the process that seeks to ensure that a pub can service maximum volumes at peak trading times whilst maintaining customer satisfaction levels.

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

**Cover volumes:** the number of main meals sold.

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

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

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

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

**IFRS:** International Financial Reporting Standards.

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

**Off-trade:** any retail outlet which has a licence to sell alcohol for consumption off the premises (e.g. supermarkets and off-licences).

**On-trade:** any retail outlet which has a licence to sell alcohol for consumption on the premises (e.g. pubs, restaurants and nightclubs).

**Post-tax cash return:** EBITDA less tax divided by average net operating assets less revaluation reserve plus accumulated depreciation plus goodwill written off, calculated on a 52 week basis.

**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 (invested) like-for-like sales:** the sales performance of all managed pubs that were trading for the two periods being compared (expressed as a percentage).

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

**Share buy back:** the purchase in the open market by a listed company of its own shares.

**Uninvested like-for-like sales:** the sales performance of those managed pubs that have not received expansionary investment of more than £30,000 in either year being compared (expressed as a percentage).

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