Mitchells & Butlers plc
Accounting policies under IFRS

Background

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

The Group has restated its results for the 53 weeks ended 1 October 2005 on an IFRS basis and these, together with an opening IFRS balance sheet at 26 September 2004, are also available from the Company's website, www.mbplc.com/IFRS. The basis of preparation and significant accounting policies applied in preparing this IFRS information for the Group are set out below. The policies have been applied consistently, unless otherwise stated.

IFRS are subject to ongoing review and endorsement by the European Union, possible amendment by interpretative guidance from the International Accounting Standards Board or emerging industry practice. As a consequence, it is possible that the accounting policies set out below could be amended before the Group publishes its first complete set of IFRS financial statements for the 52 weeks ended 30 September 2006.

Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for certain items of property, plant and equipment held at deemed cost under the transitional rules of IFRS, and derivative financial instruments which are measured at fair value. They are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate.

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc (''the Company'') and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Intangible assets

i Goodwill

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

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

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

ii Computer software

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

Internally generated computer software development costs are recognised as an intangible asset only if all of the following conditions are met: an asset is created that can be identified; it is probable that the asset will generate future economic benefits; and, the development costs can be measured reliably.

The carrying value of computer software is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Property, plant and equipment

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

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

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

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

Profits and losses on disposal of fixed assets are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

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

Assets held for sale

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

Leases

i Operating leases

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

Premiums paid on acquiring a new lease are spread on a straight-line basis over the lease term. Such premiums are classified in the balance sheet as current or non-current prepayments.

ii Finance leases

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are capitalised at the inception of the lease at an amount equal to the lower of their fair value and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Inventories

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

Financial instruments

i Trade and other receivables

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

ii Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as current asset investments.

For the purposes of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of bank overdrafts that are repayable on demand and that are integral to the Group's cash management.

iii Trade and other payables

Trade and other payables are recognised at original cost.

iv Borrowings

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

v Derivative financial instruments and hedge accounting

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

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

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

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

vii Equity instruments

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

Foreign currencies

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Revenue

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

Approximately 90% of revenue comprises food and beverages sold in the Group's outlets. This revenue is recognised at the point of sale to the customer.

Other outlet revenue is either recognised at the point at which services are rendered in respect of accommodation sales and bowling income or in the period in which it is earned in the case of machine income, franchise fees and rental income.

Revenue in respect of property developments is recognised when the outcome of the development can be reasonably foreseen, which, in most instances, will occur when a contract for sale has been exchanged.

Tax

The income tax expense represents both the income tax payable, based on profits for the year, and deferred tax. Income tax is recognised in the income statement except when it relates to items charged or credited directly to equity, in which case the income tax is also charged or credited to equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to expected tax payable in respect of previous years.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount of their tax bases. No deferred tax is recognised if the temporary timing difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Any such reduction will be reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Employee benefits

i Pension obligations

The Group has both defined benefit and defined contribution pension arrangements.

The liability recognised in the balance sheet in respect of the Group's defined benefit arrangements is the present value of the defined benefit obligation less the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. The current service cost, together with the cost of any benefits relating to past service, is charged to operating profit. The interest cost and the expected return on assets are shown as a net amount within finance income or finance expense. In accordance with the amendment to IAS 19, actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense, rather than the income statement.

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

ii Share-based compensation

The Group operates a number of equity-settled share-based compensation plans, whereby employees render services in exchange for shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is generally recognised over the vesting period based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Fair values are calculated using a combination of Black Scholes, Binomial and Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

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

iii Short-term employee benefits

The cost of short-term employee benefits, such as annual bonuses and holiday pay, are accrued and recognised in the period in which the employee services are rendered.

Own shares

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Dividends

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

Exceptional items

Exceptional items are those which are separately identified by virtue of their size or incidence to allow a full understanding of the underlying performance of the Group.