MITCHELLS & BUTLERS PLC

25 November 2014

FULL YEAR RESULTS

(For the 52 weeks ended 27 September 2014)

Business gathers momentum

Financial performance

- Total revenue of £1,970m, up 4.0%
- FY 2014 like-for-like sales growth of 0.6%[a]
- Like-for-like sales growth of 2.4% in the first eight weeks of FY 2015
- Operating profit before exceptionals of £313m[b], up 1.0%
- Net pensions finance charge of £10m (FY 2013 £11m) reclassified into underlying profit before exceptionals with restatement
- Earnings per share before exceptionals of 32.6p[b], up 1.2%
- Net cash outflow of £(199)m[c]

Reported results

- Profit before tax: £123m (FY 2013 £142m)
- Basic earnings per share: 22.6p (FY 2013 31.2p)

Balance sheet and cash flow

- Capital expenditure increased to £162m (FY 2013: £128m), including 23 new site openings and 8 conversions
- £258m cash invested in the acquisition of 173 largely freehold, well-located pubs from the Orchid Group in June
- Net debt of £1.96bn representing 4.5 times annualised EBITDA[d]

Operational highlights

- Strengthening food volume performance: like-for-like food volume growth +0.9% (FY 2013 -4.3%)
- Operating margin 15.9%[e]
- Staff turnover at historical low of 78% and net promoter score[f] growing strongly to 63% (FY 2013 59%)
- Remodel programme generating strong returns
- Executive team strengthened

Alistair Darby, Chief Executive, commented:

"In the last year we have made significant progress, investing in the business for future growth. We completed the acquisition of Orchid, accelerated remodel and expansionary capex and have made a substantial investment in our systems. At the same time we have maintained our focus on the delivery of our four key priorities. In the year ahead, we will continue these actions.

The business is gathering momentum and we have made an encouraging start to the year. We expect to benefit further from these investments during this financial year."

Definitions

a – Like-for-like sales growth includes the sales performance against the comparable period in the prior year of all UK managed pubs, bars and restaurants that were trading in the two periods being compared. For the 52 weeks to 27 September 2014, 96% of the UK managed estate (excluding Orchid) is included in this measure.
b – Adjusted items are quoted before exceptional items as noted in the Group Income Statement.
c – Net cash flow excludes £58m mandatory bond amortisation; £25m transferred to cash from other cash deposits and £147m which the Group was obliged to draw down from a liquidity facility under the terms of the securitisation. Net cash flow is detailed within the Financial Review.
d – Adjusted EBITDA for the 52 weeks to 27 September 2014, including the estimated annualised full-year impact of Orchid.
e – Operating margin is taken before exceptional items.
f – Net promoter score is defined as the percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 ('brand detractors') to the statement "I am likely to recommend this pub to a friend and / or relative". Responses scoring 7 or 8 ('passives') are ignored in the calculation.

There will be a presentation for analysts and investors at 9.00am at Nomura International plc, 1 Angel Lane, London, EC4R 3AB. A live webcast of the presentation will be available at www.mbplc.com. The conference will also be accessible by phone: 020 3059 8125 and quote "Mitchells & Butlers". The replay will be available until 8 December 2014 on 0121 260 4861 replay access pin 8262392#.

All disclosed documents relating to these results are available on the Group's website at www.mbplc.com

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Notes for editors:

- Mitchells & Butlers is the UK's largest operator of managed restaurants and pubs. Its portfolio of brands and formats includes Harvester, Toby Carvery, Country Pubs, Sizzling Pubs, Crown Carveries, Oak Tree Pubs, All Bar One, Browns, Miller & Carter, Castle, Alex, Nicholson's, O'Neill's and Ember Inns. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary.

- Mitchells & Butlers serves around 135 million meals and 435 million drinks each year and is one of the largest operators within the UK's £78 billion eating and drinking out market.

BUSINESS REVIEW

We are the UK's largest operator of managed restaurants and pubs, with a high quality freehold estate and a portfolio of strong brands. Our strategy is to focus on the long-term growth of food within the £78bn eating and drinking-out market, with around three-quarters of our turnover coming from guests eating in our pubs and restaurants.

During the year we took a significant step to grow our business by acquiring 173 pubs from the Orchid Group. This acquisition enables us to create value through the conversion of the majority of these pubs into our own brands and formats, a reduction in its central overheads and the realisation of purchasing synergies across the whole estate.

In a challenging year, we continued to position the business for future growth, whilst delivering increased earnings per share of 1.2%. We have delivered sales growth underpinned by volumes rather than price, invested further capital in both expansion into new sites and enhancement of amenity, and continued to upgrade our key systems. Together with the quality of our estate and our people, we have confidence going into the year ahead.

Our Market

We are operating in a dynamic market that is evolving constantly. We are continually reviewing the positioning and development of our brands and how we allocate capital between them. This approach has underpinned our growth in food and will ensure that our pubs, bars and restaurants remain relevant and competitive in the years to come.

During the year, the UK economy has grown led by London and the South East. Growth in the year ahead is forecast to be more evenly distributed across the UK, returning to areas that have been the most depressed since the economic downturn in 2007. Consumer confidence has started to increase and overall spending is up as a result. However, during the year earnings growth remained below inflation causing consumers to remain highly value conscious. The careful spending behaviour developed during the recession is now the norm.

Despite being the largest UK operator of managed pubs and restaurants, we have only around 3% share of this market and so there are significant opportunities for us to grow further.

The market in which we operate is, in aggregate, a mature one with growth expected broadly to track GDP and consumer expenditure. However, there are a number of dynamics on which we can capitalise:

- **The pub and restaurant market continues to see growth in branded outlets** at the expense of independent outlets. Coming out of the recession consumers increasingly look for the reliability and value that a brand can offer;
- **Food remains the principal opportunity for long-term sustainable growth**. The ongoing structural decline in the drinking-out market is offset by growth in food-driven occasions out of the home. We benefit from being focused on eating-out. We are well-placed to take advantage of this long-term trend having a large number of excellent sites with a focus on customer service, quality and value;
- **Consumers continue to seek value for money despite a rebound in confidence and spending**. As a large scale operator, we are able to use our buying power to deliver quality experiences at affordable prices and so win market share;
- **Consumers are increasingly happy to eat out at any time of the day.** We believe that there is significant opportunity to benefit from all-day trading, in particular through breakfast - an occasion for which we have experienced rising demand within both our city centre and suburban brands.

Our brands and formats

Through our research we have identified five market spaces in which our businesses operate: Upmarket Social, Special, Family, Everyday Social and Heartland.

Market conditions in each of these spaces, as well as an understanding of how our brands and concepts sit within these, dictate how we operate and how we allocate our capital spend. We have developed two broad approaches to these market spaces: attractive expansionary investment and cash generation.

Attractive investment opportunities

The Family, Special and Upmarket Social segments currently present attractive opportunities for investment, with the market trends being towards branded food, special-occasion dining and speciality drinks offerings. These are the segments towards which we allocate the majority of our expansionary capital, including that relating to the conversion of Orchid sites.

Four of our brands are being prioritised for further expansion: All Bar One, Harvester, Miller & Carter and Toby Carvery. These offer opportunities for growth because they meet the following key criteria:

- Established in attractive market segments;
- Capable of generating strong returns on expansionary capital;
- Compelling brand propositions; and
- Good availability of sites.

We will grow other brands in these market spaces through opportunistic acquisitions, if they are able to meet the criteria set out above.

Cash generation opportunities

The Heartland and Everyday Social segments are characterised by the need to offer great value and service to our guests in community pubs. In these segments our businesses generate significant profit and cash, but within market spaces that are not expected to grow as significantly as the other three.
These businesses continue to be valuable to us and have enduring appeal for their guests. As a result we look to grow them through consistently offering great prices, quality and service, as well as investing the necessary capital to ensure that our pubs continue to satisfy our guests' needs.

Our performance

We continue to operate and measure our business performance across four priority areas: our people, our practices, our guests and our profits.

Our people

Our key measure of success with regards to our people is retail staff turnover, which remained in line with the prior year at 78%. Whilst we have succeeded in maintaining this at its record low we will continue to focus on it.

Our approach to people is founded on our 'Good to Great' philosophy, which adapts our ways of working to engage with our teams, empower them to make their own decisions, and ultimately to drive stronger performance. This is now live in the majority of the estate, and at its best is delivering exceptional results.

In the last year we have also reviewed the way we recruit our team members. We have introduced collective recruitment days across multiple brands and concentrated geographical regions. This approach allows us to demonstrate the scale of our business and the career opportunities available to potential future employees.

We are proud of our investment in young people, which currently sees more than 1,500 people on a vocational or apprenticeship programme. We have pledged to take on a further 1,000 apprentices over the next two years.

We are delighted to have announced two high-quality and experienced external appointments to the Executive team. Catriona Kempston has assumed responsibility for Marketing and Phil Urban joins us in January as Chief Operating Officer.

Our practices

Our practices refer to the safe and efficient way that we run our operations. We continue to make safety a top priority, and challenge all of our businesses to achieve the maximum National Food Hygiene Rating Scheme score of 5. We have made further progress towards achieving this goal in the last year.

The project to replace all of the EPOS systems in our pubs and restaurants has continued to be rolled out at pace. They are now live in more than 1,300 sites with the project due to be completed in FY 2015. These systems enable greater efficiency within our operations by speeding up order taking and bill payment, improving business controls, and allowing our retail teams to spend more time with our guests. Further detail is included within the Financial Review.

We have also made a significant change to the way in which our operations teams make decisions, with the provision of dashboard analysis on tablets for all General Managers and Area Managers. This analysis allows prioritisation of decisions based on real-time data, and is an important step forward in the day-to-day management of the operations of our businesses.

Our guests

Our key measure for understanding how we are seen by our guests is net promoter score[a], which measures how likely our guests are to recommend us to friends and family. In FY 2014 our net promoter score increased by 4 ppts to 63%.

Our focus on guests is evident in the development of our food volume growth throughout FY 2014. Following several years of spend per head increases, we have concentrated on driving our food sales through volume rather than price growth. We aim to deliver consistently great value to our guests and to build trust in our brands. We remain committed to driving this volume growth by offering ongoing value through our menus rather than by short term promotional activity.

Our focus on brands and value to meet our guests' needs can be demonstrated with a number of examples:

- We offer consistently great value through Toby Carvery: a carvery meal during the week for £5.99, and unlimited breakfast for £3.99;
- We are innovating to drive the Harvester brand, by making significant changes to food and drink menus, the breakfast offer, branding, and design;
- We have evolved All Bar One's food and drink offer with a clear focus on its target market of professionals and shown that it can be successful in a greater diversity of locations

Our remodel programme is aimed at enhancing our existing businesses, to ensure that they surpass our guests' high standards. We have actively increased the pace and level of expenditure on remodels. 174 businesses were remodelled in FY 2014, compared with 97 in the prior year, generating returns in excess of 30%.

Our profits

In FY 2014 we increased our adjusted earnings per share by 1.2% to 32.6 pence, based on higher sales and the contribution from Orchid, as described further in the Financial Review. Our operating margins fell by 50 basis points, reflecting some short-term impact of the integration of Orchid, the increased closure costs from the accelerated remodel programme, and the growth in sales derived primarily from volume rather than price.

Outlook

Since I joined Mitchells & Butlers in October 2012 we have been committed to the fundamentals of our business plan. I remain confident that this is the right plan and will deliver sustainable profit growth and future shareholder value.

The actions we have taken are gathering momentum: we have seen staff turnover improve, net promoter score increase, a turnaround in food volume performance, increased levels of remodel and expansionary capex, and substantial investment in our systems. We are excited about integrating the Orchid estate into our leading portfolio of brands, and we have a fantastic team of more than 43,000 people to support our progress. Whilst we continue to operate in a challenging and competitive market, we are making real progress and we have confidence in our future success.

Responsibility statement

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and

- The Business Review, Financial Review and Risks and Uncertainties sections, which are incorporated into the directors' report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 24 November 2014 and is signed on its behalf by Tim Jones, Finance Director.

Notes:

a – Net promoter score is defined as the percentage of responses where we score 9 or 10 out of 10 ('brand promoters') less the percentage of responses where we score 0 to 6 ('brand detractors') to the statement "I am likely to recommend this pub to a friend and / or relative". Responses scoring 7 or 8 ('passives') are ignored in the calculation.

FINANCIAL REVIEW

On a statutory basis, profit before tax for the period was £123m (2013 £142m), on sales of £1,970m (2013 £1,895m).

The Group Income Statement discloses adjusted profit and earnings per share information that excludes exceptional items to allow a better understanding of the underlying trading of the Group. Adjusted earnings per share increased by 1.2% in FY 2014 to 32.6 pence.

At the end of the financial year, the total estate comprised 1,775 managed businesses and 57 franchised businesses, in the UK and Germany.

Change in accounting policies

IAS 19 (revised) was adopted on 29 September 2013 and has been applied retrospectively.
In addition following recent best practice guidance from the Financial Reporting Council (FRC), the net pensions finance charge is now recognised within underlying profit, having previously been classified as an other adjustment alongside identified exceptional items. As a result, additional finance charges of £11m in FY 2013 and £10m in FY 2014 have now been included as interest within adjusted profit.

Revenue

The Group's total revenues increased by 4.0% to £1,970m, as a result of both growth in like-for-like sales and the contribution of new pubs and restaurants, including 15 weeks of trading from the 173 outlets acquired from Orchid. Total like-for-like sales increased by 0.6%, with growth from both food and drink sales. Food sales growth was driven by volume growth of 0.9%, partially offset by a small reduction in average spend per head. Drink sales growth, by contrast, resulted from average spend growth of 1.6% and volume declines of 1.1%.

Like-for-like sales growth	Week 1 - 28 FY 2014	Week 29 - 52 FY 2014	Week 1 – 52 FY 2014
Total	1.1%	0.1%	0.6%
Food	0.9%	0.5%	0.7%
Drink	1.3%	(0.4%)	0.5%

Operating margins

Adjusted operating margins across the year declined by 0.5 ppts. Whilst Orchid contributed operating profit of £6m to the Group for its 15 weeks of trading, it was slightly dilutive to margin in the period, with the head office yet to be closed and businesses yet to be converted to our own brands and formats. These conversions begin in the first quarter of FY 2015, with the head office also to close during FY 2015.

Operating margins have also been impacted in the year both by increased closure costs relating to the accelerated remodel programme in order to reposition the estate, and the fact that volume, as opposed to spend per head, has been the driver of food sales growth in the year. Adjusted operating profit was £313m for the year, 1.0% higher than FY 2013.

Internal rent

A regime of internal rents is in place to enable greater internal transparency around the performance of freehold and leasehold properties and external transparency concerning the performance of the operating and property functions. The operating performance is monitored on a regular basis through a system of profit reviews through all levels of the Group. Estate management is primarily monitored through the Portfolio Development Committee.

	Operating		**Property**		**Total (before exceptional)**	
	£m	**vs LY %**	**£m**	**vs LY %**	**£m**	**vs LY %**
Revenue	1,970	4.0%	-	-	1,970	4.0%
EBITDAR	475	1.3%	-	-	475	1.3%
External Rent	(53)	(8.2%)	-	-	(53)	(8.2%)
Internal Rent	(201)	4.7%	201	4.7%	0	-
EBITDA	221	(3.1%)	201	4.7%	422	0.5%
EBITDA %	11.2%	(0.8 ppts)	-	-	21.4%	(0.8 ppts)

Interest

Net finance costs of £141m were £2m higher than the prior year. The factors behind this net increase were: step-up margins applied to four floating rate securitised notes from September 2013; additional interest incurred on a £147m liquidity facility drawn down under the terms of the securitisation; and the cost of new facilities put in place to finance the acquisition of Orchid.

As stated above, the net pensions finance charge of £10m (FY 2013 £11m) is now included within adjusted profits. The charge for FY 2015 is anticipated to be £16m.

Taxation

The tax charge of £30m in the year represents an effective rate of 24.4% (FY 2013 9.9%). The increase in the effective rate is principally due to a one-off £18m credit to deferred tax included in FY 2013 reflecting the reduction in the main rate of corporation tax to 20% from April 2015.

Exceptional items

Exceptional items comprise two items: a £37m charge relating to the net movement in the property portfolio (FY 2013 £29m); and a £12m charge for acquisition and integration costs relating to the Orchid transaction (FY 2013 £nil).

Earnings per share

Adjusted earnings per share were 32.6p, 1.2% higher than last year. After the exceptional items described above, basic earnings per share were 22.6p (FY 2013 31.2p).

Cash flow and net debt

The cash flow statement below excludes £147m drawn from a liquidity facility under the terms of the securitisation and £25m transferred to cash from other cash deposits. The funds drawn from the liquidity facility are charged under the securitisation and are not available for use in the wider Group. Further detail is provided in note 18.

	FY 2014	**FY 2013**
	£m	**£m**
EBITDA before exceptional items	422	420
Working capital movement / non-cash items	18	(9)
Pension deficit contributions	(49)	(40)
Cash flow from operations before exceptional items	**391**	**371**
Maintenance and infrastructure capex	(120)	(100)
Interest	(135)	(126)
Tax and other	(34)	(32)
Free Cash Flow before exceptional items	**102**	**113**
Expansionary capex	(42)	(28)
Orchid acquisition	(258)	0
Disposals	4	1
Operating exceptional	(5)	(2)
Net cash flow	**(199)**	**84**
Mandatory bond amortisation	(58)	(55)
Net cash flow after bond amortisation	**(257)**	**29**

The business generated £422m of EBITDA in the year. Pension deficit contributions of £49m reflected the newly agreed annual contribution of £45m (previously £40m), with the incremental amount backdated to the triennial valuation date of March 2013. After maintenance capital, interest and tax, £102m of free cash was generated by the business.

The acquisition of Orchid for initial consideration of £266m resulted in a net cash outflow in the year of £258m after adjusting for acquired cash and working capital, and deferred consideration.

	FY 2014
	£m
Initial consideration	266
Working capital and completion adjustments	5
Total cash consideration	**271**
Deferred consideration	(2)
Cash and cash equivalents acquired	(11)
Acquisition net cash outflow	**258**

In the 15 weeks post acquisition trading included in this year Orchid contributed sales of £41m and operating profit of £6m.

Net debt was £1,958m, representing 4.5 times annualised EBITDA (FY 2013 4.2 times), the year on year increase being a result of the Orchid acquisition. Net debt within the securitisation was £1,986m and net cash held outside the securitisation was £28m.

Capital expenditure

Total capital expenditure was £162m, comprising £94m (FY 2013 £88m) spent on maintaining and enhancing the high level of amenity in the Group's restaurants and pubs, £26m on infrastructure projects (FY 2013 £12m), and £42m on new site openings (FY 2013 £28m).

Expenditure on maintenance and infrastructure projects included the ongoing replacement and upgrade of pub and restaurant EPOS systems. The new system is now live in more than 1,300 sites and the rollout is due to be completed during FY 2015. The systems implementation and benefit varies according to our different brands and formats: in addition to tills, full table service restaurants receive new payment devices, handheld terminals for taking orders and kitchen management systems; pubs focused on ordering at the bar receive tills and payment devices only. This gives a range of financial and non-financial benefits, including productivity savings, improved controls in terms of daily cash processes, and improvements in the management and analysis of data, including promotional activity. Productivity benefits are to be realised through a combination of reduced levels of employment cost, and reinvestment into service to provide an enhanced guest experience. The new systems are estimated to drive productivity benefits worth in excess of 20 hours per pub per week at our full table service brands, and around 7 hours per pub per week in bar-service brands.

The blended EBITDA return on expansionary capital invested since FY 2011 was 16% (FY 2013 17%). Given the varying nature of freehold acquisitions, leasehold acquisitions and conversions, the business reviews returns by category:

	Investment[a]	FY 2014 No. of sites	FY 2011 – 2014 EBITDA ROI
Freehold acquisitions	£27m	8	13%
Leasehold acquisitions	£15m	15	18%
Conversions	£3m	8	16%
Total	£45m	31	16%

Property

A red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuers, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall portfolio value has increased by £26m, reflecting a £36m exceptional charge in the income statement and a £62m increase in the revaluation reserve. There is a further £1m exceptional charge to the income statement in relation to the impairment of lease premiums.

Pensions

In May 2014 the Company reached agreement on the triennial valuation of the group pension schemes as at 31 March 2013, at an increased funding shortfall of £572m (March 2010 valuation: £400m). The discounted value of the minimum funding requirement agreed as part of the revised schedule of contributions is recognised in the balance sheet leading to an increased pensions liability, before tax, of £425m (FY 2013 £248m).

Dividends

The Board remains mindful of the attraction of the resumption of dividend payments and will continue to monitor anticipated net cash flow generation, before taking a decision on timing and quantum.
As an element of the recent pensions valuation, referred to above, the Group has agreed that normal dividends will only be resumed provided they can initially be funded out of cashflow after bond amortisation.

Responsibility statement

We confirm to the best of our knowledge:

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- The Business Review, Financial Review and Risks and Uncertainties sections, which are incorporated into the directors' report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 24 November 2014 and is signed on its behalf by Tim Jones, Finance Director.

Notes:

a – Spend relating to new and converted sites completed in the current year.

Group income statement

For the 52 weeks ended 27 September 2014

	2014 52 weeks			2013 52 weeks restated*		
	Before exceptional items £m	Exceptional items[a] £m	Total £m	Before exceptional items £m	Exceptional items[a] £m	Total £m
Revenue	1,970	-	1,970	1,895	-	1,895
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	(1,548)	(12)	(1,560)	(1,475)	-	(1,475)
EBITDA[b]	422	(12)	410	420	-	420
Depreciation, amortisation and movements in the valuation of the property portfolio	(109)	(37)	(146)	(110)	(29)	(139)
Operating profit/(loss)	313	(49)	264	310	(29)	281
Finance costs	(132)	-	(132)	(130)	-	(130)
Finance revenue	1	-	1	2	-	2
Net pensions finance charge	(10)	-	(10)	(11)	-	(11)
Profit/(loss) before tax	172	(49)	123	171	(29)	142
Tax (expense)/credit	(38)	8	(30)	(39)	25	(14)
Profit for the period	134	(41)	93	132	(4)	128
Earnings per ordinary share						
Basic	32.6p		22.6p	32.2p		31.2p
Diluted	32.4p		22.5p	32.0p		31.0p

* Restated for the impact of IAS 19 (revised) and presentation of pensions finance charge, see note 3.

a. Exceptional items are analysed in note 4.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio.

All results relate to continuing operations.

Group statement of comprehensive income
For the 52 weeks ended 27 September 2014

	2014 52 weeks £m	2013 52 weeks restated* £m
Profit for the period	93	128
Items that will not be reclassified subsequently to profit or loss:		
Unrealised gain on revaluation of the property portfolio	62	60
Remeasurement of pension liability	(214)	-
Tax relating to items not reclassified	33	16
	(119)	76
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1)	1
Cash flow hedges:		
- (Losses)/gains arising during the period	(59)	53
- Reclassification adjustments for losses included in profit or loss	48	47
Tax relating to items that may be reclassified	2	(30)
	(10)	71
Other comprehensive (loss)/income after tax	(129)	147
Total comprehensive (loss)/income for the period	(36)	275

* Restated for the impact of IAS 19 (revised), see note 3.

Group balance sheet
27 September 2014

	2014	2013
	£m	£m
Assets		
Goodwill and other intangible assets	18	5
Property, plant and equipment	4,242	3,895
Lease premiums	1	2
Deferred tax asset	149	105
Derivative financial instruments	5	5
Total non-current assets	4,415	4,012
Inventories	27	24
Trade and other receivables	60	72
Other cash deposits	-	25
Cash and cash equivalents	255	340
Total current assets	342	461
Total assets	4,757	4,473
Liabilities		
Pension liabilities	(45)	(40)
Trade and other payables	(300)	(263)
Current tax liabilities	(21)	(17)
Borrowings	(208)	(57)
Derivative financial instruments	(45)	(46)
Total current liabilities	(619)	(423)
Pension liabilities	(380)	(208)
Other payables	-	(12)
Borrowings	(2,012)	(2,075)
Derivative financial instruments	(196)	(182)
Deferred tax liabilities	(353)	(345)
Long-term provisions	(12)	(9)
Total non-current liabilities	(2,953)	(2,831)
Total liabilities	(3,572)	(3,254)
Net assets	1,185	1,219
Equity		
Called up share capital	35	35
Share premium account	24	23
Capital redemption reserve	3	3
Revaluation reserve	918	869
Own shares held	(4)	(4)
Hedging reserve	(196)	(187)
Translation reserve	11	12
Retained earnings	394	468
Total equity	1,185	1,219

Group statement of changes in equity

For the 52 weeks ended 27 September 2014

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 29 September 2012	35	21	3	793	(3)	(257)	11	340	943
Profit for the period*	-	-	-	-	-	-	-	128	128
Other comprehensive income/(expense)*	-	-	-	76	-	70	1	-	147
Total comprehensive income/(expense)	-	-	-	76	-	70	1	128	275
Share capital issued	-	2	-	-	-	-	-	-	2
Purchase of own shares	-	-	-	-	(5)	-	-	-	(5)
Release of own shares	-	-	-	-	4	-	-	(2)	2
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
At 28 September 2013	35	23	3	869	(4)	(187)	12	468	1,219
Profit for the period	-	-	-	-	-	-	-	93	93
Other comprehensive income/(expense)	-	-	-	50	-	(9)	(1)	(169)	(129)
Total comprehensive income/(expense)	-	-	-	50	-	(9)	(1)	(76)	(36)
Share capital issued	-	1	-	-	-	-	-	-	1
Purchase of own shares	-	-	-	-	(2)	-	-	-	(2)
Release of own shares	-	-	-	-	2	-	-	(1)	1
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
Disposal of properties	-	-	-	(1)	-	-	-	1	-
At 27 September 2014	35	24	3	918	(4)	(196)	11	394	1,185

* Restated for the impact of IAS 19 (revised), see note 3.

Group cash flow statement
For the 52 weeks ended 27 September 2014

	2014 52 weeks £m	2013 52 weeks £m
Cash flow from operations	391	371
Cash flow from operating exceptional items	(5)	(2)
Interest paid	(137)	(128)
Interest received	2	2
Tax paid	(34)	(31)
Net cash from operating activities	217	212
Investing activities		
Acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited	(269)	-
Cash acquired on acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited	11	-
Purchases of property, plant and equipment	(156)	(126)
Purchases of intangible assets	(6)	(1)
Payment of lease premium	-	(1)
Proceeds from sale of property, plant and equipment	4	1
Transfers from other cash deposits	25	-
Net cash used in investing activities	(391)	(127)
Financing activities		
Issue of ordinary share capital	1	2
Purchase of own shares	(2)	(5)
Proceeds on release of own shares	1	2
Repayment of principal in respect of securitised debt	(58)	(55)
Drawings under liquidity facility	147	-
Net cash from/(used in) financing activities	89	(56)
Net (decrease)/increase in cash and cash equivalents	(85)	29
Cash and cash equivalents at the beginning of the period	340	311
Cash and cash equivalents at the end of the period	255	340

Notes to the preliminary financial statements
For the 52 weeks ended 27 September 2014

1. Preparation of preliminary financial statements

Basis of preparation
Mitchells & Butlers plc, along with its subsidiaries, (together 'the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in accordance with the Companies Act 2006. The information contained within this release is based on the Group's consolidated financial statements.

The preliminary financial statements include the results of Mitchells & Butlers plc and all its subsidiaries for the 52 week period ended 27 September 2014. The comparative period is for the 52 week period ended 28 September 2013. The respective balance sheets have been drawn up as at 27 September 2014 and 28 September 2013.

The preliminary financial statements have been prepared on the historical cost basis as modified by the revaluation of properties, pension obligations and financial instruments.

Restatement

IAS 19 Employee Benefits (revised)
IAS 19 (revised) was adopted on 29 September 2013 and has been applied retrospectively in accordance with the transition provisions.

The new standard replaces the interest charge on defined benefit obligations and the expected return on plan assets with a single net interest cost that is calculated by applying the discount rate to the net pension deficit at the beginning of the period, inclusive of any minimum funding requirement. In addition the administration costs of the pension scheme, previously charged against the expected return on plan assets, are now charged within operating costs.

In addition to the changes noted above, following recent guidance from the Financial Reporting Council (FRC), the pensions finance charge is now recognised within underlying profit.

The impact of IAS 19 (revised) has been to reduce profit before tax by £8m for the 52 weeks ended 28 September 2013.

Further details of the restatement are shown in note 3. Basic and diluted earnings per share have been impacted and restated accordingly in note 7.

Going concern
The Group's forecasts and projections take account of anticipated trading performance and show that the Group should be able to operate within the level of its current borrowing facilities.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Exchange rates
The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.22 (2013 £1 = €1.19), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.28 (2013 £1 = €1.19) and £1 = $1.62 (2013 £1 = $1.61) respectively.

2. Segmental analysis

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The CODM uses profit before interest and exceptional items (operating profit pre-exceptionals) as the key measure of the segment results. Group assets are reviewed as part of this process but are not presented on a segment basis.

The retail operating business operates all of the Group's retail operating units and generates all of its external revenue. The property business holds the Group's freehold and long leasehold property portfolio and derives all of its income from the internal rent levied against the Group's retail operating units. The internal rent charge is eliminated at the total Group level.

	Retail operating business		Property business		Total	
	2014 52 weeks £m	2013 52 weeks restated* £m	2014 52 weeks £m	2013 52 weeks £m	2014 52 weeks £m	2013 52 weeks restated* £m
Revenue[a]	1,970	1,895	-	-	1,970	1,895
EBITDA pre-exceptionals	221	228	201[b]	192[b]	422	420
Operating profit pre-exceptionals	127	131	186	179	313	310
Exceptional items (note 4)					(49)	(29)
Operating profit					264	281
Net finance costs					(141)	(139)
Profit before tax					123	142
Tax expense					(30)	(14)
Profit for the period					93	128

* Restated for the impact of IAS 19 (revised), see note 3.

a. Revenue includes other income of £7m (2013 £7m) in respect of franchise operations.
b. The EBITDA pre-exceptionals of the property business relates entirely to rental income received from the retail operating business.

3. Pensions

Restatement in relation to IAS 19 (revised)
IAS 19 (revised) was adopted on 29 September 2013 and has been applied retrospectively in accordance with the transition provisions.

The new standard replaces the interest charge on defined benefit obligations and the expected return on plan assets with a single net interest cost that is calculated by applying the discount rate to the net pension deficit at the beginning of the period, inclusive of any minimum funding requirement. In addition the administration costs of the pension scheme, previously charged against the expected return on plan assets, are now charged within operating costs.

In addition to the changes noted above, following recent guidance from the Financial Reporting Council (FRC), the pensions finance charge is now recognised within underlying profit.

The Group has restated the comparative amounts in the income statement and statement of comprehensive income for the 52 weeks ended 28 September 2013. There is no impact on the balance sheet or cash flow statement from the changes introduced by IAS 19 (revised).

The tables below provide a summary of the amounts previously reported, the adjustments made and the restated amounts in relation to IAS 19 (revised).

52 weeks ended 28 September 2013	Previously reported £m	Impact of IAS 19 (revised) £m	Restated £m
Group income statement			
Operating profit	283	(2)	281
Finance costs:			
Finance costs and revenue	(128)	-	(128)
Net pensions finance charge	(5)	(6)	(11)
Profit before tax	150	(8)	142
Tax expense	(15)	1	(14)
Profit for the period	135	(7)	128
Group statement of comprehensive income			
Profit for the period	135	(7)	128
Remeasurement of pension liability	(8)	8	-
Other items of comprehensive income	161	-	161
Tax relating to items of other comprehensive income	(13)	(1)	(14)
Other comprehensive income after tax	140	7	147
Total comprehensive income	275	-	275
Group balance sheet			
Pension liabilities	(248)	-	(248)
Associated deferred tax asset	50	-	50

3. Pensions (continued)

Measurement of scheme assets and liabilities

Minimum funding requirements
The results of the 2013 actuarial valuation showed a funding deficit of £572m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised) and on 21 May 2014 the Company formally agreed a new 10 year recovery plan with the Trustees to close the funding deficit in respect of its pension scheme liabilities. The Group has agreed to increase contributions from £40m to £45m per annum, for three years effective from 1 April 2013. From 1 April 2016 contributions then increase each year by the rate of RPI (subject to a minimum increase of 0% and a maximum increase of 5%) for the following seven years. The Group has also agreed to make a further minimum underwritten payment of £40m on terms to be agreed with the Trustees by 30 September 2015. Under IFRIC 14, an additional liability is recognised, such that the overall pension liability at the period end reflects the schedule of contributions in relation to a minimum funding requirement, should this be higher than the actuarial deficit.

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

Group income statement	2014 52 weeks £m	2013 52 weeks restated* £m
Operating profit:		
Employer contributions (defined contribution plans)	(7)	(5)
Administrative costs (defined benefit plans)	(2)	(2)
Charge to operating profit	(9)	(7)
Finance costs:		
Net pensions finance charge on actuarial deficit	(4)	(3)
Additional pensions finance charge due to minimum funding	(6)	(8)
Net finance charge in respect of pensions	(10)	(11)
Total charge	(19)	(18)

*Restated for the impact of IAS 19 (revised).

Group statement of comprehensive income	2014 52 weeks £m	2013 52 weeks restated* £m
Return on scheme assets and effects of changes in assumptions	(119)	(65)
Movement in pension liability recognised due to minimum funding	(95)	65
Remeasurement of pension liability	(214)	-

*Restated for the impact of IAS 19 (revised).

Group balance sheet	2014 £m	2013 £m
Fair value of scheme assets	1,865	1,732
Present value of scheme liabilities	(2,058)	(1,849)
Actuarial deficit in the schemes	(193)	(117)
Additional liability recognised due to minimum funding	(232)	(131)
Total pension liability	(425)	(248)
Associated deferred tax asset	85	50

3. Pensions (continued)

The movement in the fair value of the schemes' assets in the period is as follows:

	Scheme assets	
	2014	2013
	£m	£m
Fair value of scheme assets at beginning of period	1,732	1,610
Interest income	76	69
Remeasurement gain:		
- Return on scheme assets (excluding amounts included in net finance charge)	80	78
Employer contributions	49	41
Benefits paid	(70)	(64)
Administration costs	(2)	(2)
At end of period	1,865	1,732

Changes in the present value of defined benefit obligations are as follows:

	Defined benefit obligation	
	2014	2013
	£m	£m
Present value of defined benefit obligation at beginning of period	(1,849)	(1,698)
Interest cost	(80)	(72)
Benefits paid	70	64
Remeasurement losses:		
- Effect of changes in demographic assumptions	(45)	(122)
- Effect of changes in financial assumptions	(154)	(21)
At end of period[a]	(2,058)	(1,849)

a. The defined benefit obligation comprises £24m (2013 £22m) relating to the MABETUS unfunded plan and £2,034m (2013 £1,827m) relating to the funded plans.

4. Exceptional items

	Notes	2014 52 weeks £m	2013 52 weeks restated* £m
Operating exceptional items			
Movement in the valuation of the property portfolio:			
- Impairment arising from the revaluation		(25)	(12)
- Other impairment	a	(11)	(17)
- Impairment of lease premium		(1)	-
Net movement in the valuation of the property portfolio		(37)	(29)
Other exceptional items:			
- Acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited	b	(12)	-
Total exceptional items before tax		(49)	(29)
Tax credit relating to above items		8	7
Tax credit in respect of change in tax legislation	c	-	18
Total tax credit		8	25
Total exceptional items after tax		(41)	(4)

*Restated for the impact of IAS 19 (revised) and presentation of pension finance charge.

a. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.
b. Relates to integration costs and legal and professional fees incurred in the acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited on 15 June 2014.
c. The prior year deferred tax credit relates to the enactment of legislation on 17 July 2013 which lowered the UK standard rate of corporation tax from 23% to 20% with effect from 1 April 2015.

5. Finance costs and revenue

	2014 52 weeks £m	2013 52 weeks restated* £m
Finance costs		
Securitised and other debt – loans and receivables	(132)	(130)
Finance revenue		
Interest receivable – cash	1	2
Net pensions finance charge (note 3)	(10)	(11)

*Restated for the impact of IAS 19 (revised), see note 3.

6. Taxation

	2014 52 weeks £m	2013 52 weeks restated* £m
Tax charged in the income statement		
Current tax:		
- UK corporation tax	(29)	(34)
- Amounts (under)/over provided in previous years	(9)	14
Total current tax charge	(38)	(20)
Deferred tax:		
- Origination and reversal of temporary differences	1	(1)
- Adjustments in respect of previous years	7	(11)
- Change in tax rate	-	18
Total deferred tax credit	8	6
Total tax charged in the income statement	(30)	(14)

*Restated for the impact of IAS 19 (revised), see note 3.

	2014 52 weeks £m	2013 52 weeks restated* £m
Tax relating to items recognised in other comprehensive income		
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
- Unrealised gains due to revaluations – revaluation reserve	(12)	16
- Unrealised gains due to revaluations – retained earnings	2	11
- Remeasurement of pension liability	43	(11)
	33	16
Items that may be reclassified subsequently to profit or loss:		
- Cash flow hedges:		
- (Losses)/gains arising during the period	12	(11)
- Reclassification adjustments for losses included in profit or loss	(10)	(19)
	2	(30)
Total tax credit/(charge) recognised in other comprehensive income	35	(14)

*Restated for the impact of IAS 19 (revised), see note 3.

7. Earnings per share

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

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

Adjusted earnings per ordinary share amounts are presented before exceptional items (see note 4) in order to allow a better understanding of the underlying trading performance of the Group.

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 27 September 2014:			
Profit/EPS	93	22.6p	22.5p
Exceptional items, net of tax	41	10.0p	9.9p
Adjusted profit/EPS	134	32.6p	32.4p
52 weeks ended 28 September 2013 (restated*):			
Profit/EPS	128	31.2p	31.0p
Exceptional items, net of tax	4	1.0p	1.0p
Adjusted profit/EPS	132	32.2p	32.0p

*Restated for the impact of IAS 19 (revised) and presentation of pensions finance charge, see note 3.

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

	2014 52 weeks m	2013 52 weeks m
For basic EPS calculations	411	410
Effect of dilutive potential ordinary shares:		
- Contingently issuable shares	1	-
- Other share options	1	2
For diluted EPS calculations	413	412

At 27 September 2014, 816,685 (2013 521,591) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

7. Earnings per share (continued)

Impact of change in accounting policy

IAS 19 (revised) was adopted on 29 September 2013 and has been applied retrospectively, as described in note 1. The results for the 52 weeks ended 28 September 2013 have been restated to reflect these changes. The impact of this restatement on the amounts reported for earnings per share is as follows:

	Profit £m	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
52 weeks ended 28 September 2013			
Profit/EPS (previously reported)	135	32.9 p	32.7 p
Impact of IAS 19 (revised)	(7)	(1.7)p	(1.6)p
Profit/EPS (restated)	128	31.2 p	31.1 p
Adjusted profit/EPS (previously reported)	143	34.9 p	34.7 p
Impact of IAS 19 (revised)	(2)	(0.5)p	(0.5)p
Change in presentation of pensions finance charge, net of tax	(9)	(2.2)p	(2.2)p
Adjusted profit/EPS (restated)	132	32.2 p	32.0 p

8. Property, plant and equipment

	2014 27 September £m	2013 28 September £m
At beginning of period	3,895	3,848
Acquired through business combinations (note 12)	279	-
Additions	157	126
Revaluation	26	31
Disposals	(7)	(1)
Depreciation provided during the period	(108)	(109)
At end of period	4,242	3,895

Revaluation

A policy of valuing the majority of the Group's freehold and long leasehold licensed properties, for accounting purposes, was adopted on 29 September 2007. Short leasehold properties, unlicensed properties and fixtures, fittings and equipment are held at cost less depreciation and impairment.

The freehold and long leasehold properties have been valued at market value, as at 27 September 2014 using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the provisions of RICS Appraisal and Valuation Standards ('The Red Book') assuming each asset is sold as part of the continuing enterprise in occupation individually as a fully operational trading entity. The market value has been determined having regard to factors such as current and future projected income levels, taking account of location, quality of the pub restaurant and recent market transactions in the sector.

8. Property, plant and equipment (continued)

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate. The impact of the revaluations/impairments described above is as follows:

	2014 52 weeks £m	2013 52 weeks £m
Income statement		
Revaluation loss charged as an impairment	(75)	(63)
Reversal of past impairments	50	51
Total impairment arising from the revaluation	(25)	(12)
Impairment of short leasehold and unlicensed properties	(11)	(17)
	(36)	(29)
Revaluation reserve		
Unrealised revaluation surplus	169	160
Reversal of past revaluation surplus	(107)	(100)
	62	60
Net increase in property, plant and equipment	26	31

9. Cash flow from operations

	2014 52 weeks £m	2013 52 weeks restated* £m
Operating profit	264	281
Add back: operating exceptional items (note 4)	49	29
Operating profit before exceptional items	313	310
Add back:		
Depreciation of property, plant and equipment	108	109
Amortisation of intangibles	1	1
Cost charged in respect of share-based payments	2	2
Administrative pension costs (note 3)	2	2
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	426	424
Movements in working capital and pension contributions:		
(Increase)/decrease in inventories	(1)	2
Decrease/(increase) in trade and other receivables	15	(10)
Decrease in trade and other payables	(3)	(5)
Increase in provisions	3	-
Additional pension contributions (note 3)	(49)	(40)
Cash flow from operations	391	371

* Restated for the impact of IAS 19 (revised), see note 3.

10. Analysis of net debt

	2014 £m	2013 £m
Cash and cash equivalents	255	340
Other cash deposits	-	25
Securitised debt	(2,073)	(2,132)
Liquidity facility	(147)	-
Derivatives hedging balance sheet debt[a]	7	8
	(1,958)	(1,759)

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

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, including overnight deposits, of £255m (2013 £268m) and cash deposits with an original maturity of three months or less of £nil (2013 £72m).

Other cash deposits
Other cash deposits at 27 September 2014 comprise £nil (2013 £25m) of cash at bank with an original maturity of three months or more.

11. Movement in net debt

	2014 52 weeks £m	2013 52 weeks £m
Net (decrease)/increase in cash and cash equivalents	(85)	29
Add back cash flows in respect of other components of net debt:		
Transfers from other cash deposits	(25)	-
Repayment of principal in respect of securitised debt	58	55
Drawings under liquidity facility	(147)	-
(Increase)/decrease in net debt arising from cash flows	(199)	84
Movement in capitalised debt issue costs net of accrued interest	-	(2)
(Increase)/decrease in net debt	(199)	82
Opening net debt	(1,759)	(1,841)
Closing net debt	(1,958)	(1,759)

12. Acquisitions

On 15 June 2014 the Group acquired all of the issued share capital in Orchid Pubs and Dining Limited and Midco 1 Limited. Orchid Pubs and Dining Limited operates pubs and restaurants in the UK and Midco 1 Limited operates as a property leasing company. The acquisition of these companies supports the Group's strategy of expanding its food-led operations.

At the period end none of the acquired sites had been converted into one of the Group's existing brand formats, however, a phased conversion programme will commence during the new financial period.

The amounts recognised in respect of identifiable assets and liabilities relating to the acquisition were as follows:

	£m
Land and buildings	270
Fixtures, fittings and equipment	9
Inventory	2
Cash and cash equivalents	11
Trade and other receivables	5
Trade and other payables	(26)
Deferred tax liability	(9)
Net identifiable assets	262
Goodwill	9
Total cash consideration	271
Net cash outflow arising on acquisition:	
Cash consideration	271
Less: deferred consideration	(2)
Less: cash and cash equivalents acquired	(11)
	258

Goodwill of £9m has arisen on the acquisition of Orchid Pubs and Dining Limited and Midco 1 Limited primarily through the benefits that will be gained from combining their sites with the Group's existing portfolio of brands and related sites.

The trade and other receivables acquired have a fair value of £5m and a gross contractual value of £5m.

Acquisition costs, relating to integration and legal and professional fees, amounted to £12m and have been charge to the income statement during the period (see note 4).

Orchid Pubs and Dining Limited and Midco 1 Limited have contributed £41m revenue and £6m to the Group's operating profit pre-exceptionals for the period between acquisition date and the balance sheet date.

13. Financial statements

The preliminary statement of results was approved by the Board of Directors on 24 November 2014. It does not constitute the Group's statutory financial statements for the 52 weeks ended 27 September 2014 or for the 52 weeks ended 28 September 2013. The financial information is derived from the statutory financial statements of the Group for the 52 weeks ended 27 September 2014.

Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered following the Company's Annual General Meeting. The Company's auditor reported on those accounts; their reports were unqualified; did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under S498(2) or (3) of the Companies Act 2006.