**MITCHELLS & BUTLERS PLC**
**LEI no. 213800JHYNDNB1NS2W10**

**23 November 2017**

# FULL YEAR RESULTS

(For the 53 weeks ended 30 September 2017)

- **Like-for-like sales growth maintained**
- **Consistent sales outperformance of market**
- **Performance reflects successful implementation of strategy**

**Financial performance**

- Full year like-for-like sales [a] up 1.8% and up 2.3%[a] in recent 7 weeks
- Adjusted operating profit of £314m[b], down 3.1% on a 52 week basis
- Adjusted earnings per share of 34.9p[b], down 1.4% on a 52 week basis

**Strategic progress**

- Completed 252 return generating projects with focus on premiumisation or amenity enhancement
- Disposal of 79 sites not offering long term growth potential
- Improved guest care and responsiveness; net promoter score increased by 7.8ppts
- Time and attendance system now live; stock control system upgraded
- Improved employee engagement; pub staff turnover reduced by 4.1%

**Reported results**

- Total revenue of £2,180m (FY 2016 £2,086m)
- Operating profit of £208m (FY 2016 £231m)
- Profit before tax of £77m (FY 2016 £94m)
- Basic earnings per share 15.1p (FY 2016 21.6p)

**Balance sheet and cash flow**

- Capital expenditure of £169m (FY 2016 £167m), including 13 openings of new sites and 252 conversions and remodels (FY 2016 8 new sites and 252 conversions and remodels)
- Cash flow of £103m[c] (FY 2016: £60m)
- Net debt of £1.75bn (FY 2016 £1.84bn) representing 4.2 times adjusted EBITDA[d] (FY 2016 4.3 times)
- Final dividend of 5.0p recommended. No interim dividend in the current financial year pending assessment at year end of capital allocation and prospects.

Phil Urban, Chief Executive, commented:

"This year, we have continued to make progress on our three priority areas: building a more balanced business; instilling a more commercial culture; and driving an innovation agenda. This has resulted in a period of strong operational achievement for Mitchells & Butlers with a sustained return to like-for-like sales growth driving market outperformance. We have also gained agreement with the pensions trustees on future pension contributions which gives clarity to shareholders and pensioners alike.

Cost headwinds across the industry have adversely affected margins but we continue to work hard to mitigate as much of these as possible through our focus on efficiency and profitable sales growth.

Overall, we believe that the progress we have made this year positions the Company well to deliver long-term shareholder value."

**Definitions**

a – Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal. Like-for-like sales are measured against relevant accounting weeks in the prior year with full year like-for-like sales growth measured on a 53 week basis. There is a reconciliation of this measure after the notes to this announcement.

b – Adjusted earnings are quoted before separately disclosed items as set out in the Group Income Statement and detailed in note 3 of the accounts. There is a reconciliation of this measure after the notes to this announcement.

c – Cash flow excludes £12m cash dividend payment (FY 2016 £31m); £77m mandatory bond amortisation (FY 2016 £67m) and net £(25)m movement on unsecured revolving facilities (FY 2016 £31m). There is a reconciliation of this measure after the notes to this announcement.

d – EBITDA before separately disclosed items on 52 week basis is used to calculate net debt to EBITDA. There is a reconciliation of this measure after the notes to this announcement.

There will be a presentation today for analysts and investors at 8.45am at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. A live webcast of the presentation will be available at www.mbplc.com. The conference will also be accessible by phone: 0203 059 8125 and quote "Mitchells & Butlers". The replay will be available until 30 November 2017 on 0121 260 4861 replay access pin 7354079#.

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

For further information, please contact:

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Notes to editors:

- Mitchells & Butlers is a leading operator of managed restaurants and pubs. Its strong portfolio of brands and formats includes Harvester, Toby Carvery, All Bar One, Miller & Carter, Premium Country Pubs, Sizzling Pubs, Crown Carveries, Stonehouse, Vintage Inns, Browns, Castle, Nicholson's, O'Neill's and Ember Inns. In addition, it operates Innkeeper's Lodge hotels in the UK and Alex restaurants and bars in Germany. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary .

## BUSINESS REVIEW

Over the last year we have made further progress against our three strategic priorities which were introduced to address a period of like for like sales declines and market under-performance:

- To build a more balanced business
- To instil a more commercial culture
- To drive an innovation agenda

Our initiatives in these areas have been successful in restoring sales growth and mitigating £26m of the inflationary cost headwinds which we faced in the past year. With inflationary costs continuing into the next financial year, our focus on efficiency remains at the forefront. To this end, we are embarking on the second phase of initiatives and will provide a further update on these in May.

We achieved like-for-like sales growth of 1.8% in the financial year having continued to build steadily on the sales improvement which began in the second half of FY 2016. The improvement is partly driven by capital however the uninvested estate improved like-for-like sales trajectory by 0.6ppts over the course of the year. This momentum has seen us consistently outperforming the market. Although the final quarter was impacted by disappointing weather, trading since the year end has resulted in strengthened like-for-like sales growth of 2.3% and we will look to carry this momentum forward.

As a result of the inflationary cost pressures, adjusted operating profit was down 3.1%, on a 52 week basis, despite the positive sales trajectory.

## THE EXTERNAL ENVIRONMENT

Trends within the broader eating out market are mixed, with the restaurant sector overall seeing sales decline but with branded restaurants experiencing growth of 4.5% in 2017. Recent data suggests that consumer behaviour is changing, with people eating out less frequently but spending more when they do make the decision to go out. In addition, although restaurant supply growth has steadied over the last year the market remains highly competitive and, as a result, levels of discounting appear to be increasing in some segments of the market. This context helps inform our strategic priorities to keep our brands front of mind for the guest through innovation and continuous development, as well as premiumising, in order to take advantage of changing customer behaviour.

There are unprecedented cost headwinds facing the sector, putting the focus on efficiency and maximising profitable sales growth. In addition, there is also political uncertainty domestically and surrounding the impact of the UK leaving the European Union. There are three main areas on which Brexit may impact our business: changes in consumer confidence; changes in employment and immigration laws; and the impact on input costs. Without clarity on the terms of exit, the impact of the first two remains relatively unknown and we continue to closely follow developments in these areas. Input costs will continue to be impacted by changes in the value of sterling. While the fall in the value of the currency since the EU referendum has been profit dilutive we do have a strong track record of partially mitigating input costs inflation through procurement initiatives.

We believe that success in our evolving market requires quality brands, offering great experiences at the right price and with high amenity levels, to generate sufficient sales growth to mitigate cost headwinds.

## OUR PRIORITIES

### Building a more balanced business

Our estate comprises over 1,750 pubs and restaurants, of which more than 80% are freehold or long-leasehold. Our focus in this area is to optimise the balance of brands across the estate in order to create long-term value.

We are committed to improving the quality of the estate by exposing it to more premium market spaces and by improving overall amenity. We conducted a full estate review giving us a plan for each of our sites. One outcome of this review was the disposal of 79 sites, which completed earlier in the year. A second was the identification of a section of the estate which we believe may not be positioned to generate value. These are predominantly short leasehold sites in retail and leisure locations, currently trading below expectations. Having reviewed in detail the future trading potential and brand or offer conversion options for these sites this year, we have concluded that several are unlikely to generate a positive return over the remaining life of their lease. We have reflected this judgement in an increased onerous lease provision this year.

One way in which we have increased the premium aspect of the business is through growth of Miller & Carter, our successful steakhouse format which is generating strong like-for-like sales. Over the past year we have increased the number of sites from 52 to 84, with 26 of the additional sites facilitated through conversions of existing sites, and we anticipate reaching 100 sites at the beginning of the next calendar year. Conversions are delivering average EBITDA returns of more than 40%, and we continue to explore various new types of locations for the brand.

We also continue to work on enhancing the amenity of other formats through our remodel programme. For example, we have continued to progress our evolution of Harvester through remodels offering a fresh and contemporary design, bringing rotisserie chicken to the fore, as well as a retargeted offer which is delivering sales uplifts of 10% following investment.

During the year we have also focused investment on our accommodation offer. We operate over 900 rooms across 52 locations and believe we can generate a strong return by upgrading the rooms to be more closely aligned with the feel of the brand they are attached to, which in most cases means premiumisation of the accommodation. We have completed 15 remodels this financial year with sales uplifts of over 20.0% following investment. We intend to continue our investment in accommodation next financial year and, in addition, will complete the build of a purpose-built lodge.

In total we have completed 252 remodels and conversions in FY 2017 (FY 2016 252), which means we are on track to maintain the reduction in our redevelopment cycle from 11-12 years previously to 6 -7 years now.

**Instilling a more commercial culture**

Instilling a commercial culture is critical to achieving profitable sales growth and we are pleased with the progress made in this area over the year. The four new operating divisions, each containing similar customer types and brands, introduced last year have improved our guest focus and we have made significant progress across a number of initiatives as evidenced by our like-for-like sales improvement.

The growth of social media has made online reputation more important than ever and we have made significant progress in this area over the course of the year. Using reputation.com, an online feedback consolidation tool, managers are now responding to 83% of the growing number of online comments, up from 59% a year ago. As managers have increased their level of engagement with their guests we have also seen average feedback scores increase over the course of the year with total net promoter score having increased by 7.8ppts to 59.

In these times of unprecedented cost headwinds, it is important that we rigorously identify and secure efficiency and cost saving opportunities across the business. Our progress in this area is well advanced with cost savings of £26m delivered in FY 2017 and further initiatives identified for delivery in the current financial year. For example, we have improved two key operational systems during the year.

The first is a time and attendance labour system which requires team members to clock in and out, ensuring that staff are paid accurately for the time worked, whilst also increasing deployment efficiency through enhanced planning tools. In addition, managers are able to access the system from any device and the next stage of roll out will include the capability for team members to swap shifts and for us to share resource across local sites.

The second system which we have updated during the year is our stock control system. This upgraded technology halves the time taken to do stock counts and improves stock control ability, reducing both the instances of an item being out of stock and wastage. The next stage of this development is an auto ordering system which is now in trial.

In addition to this activity, we continue to leverage our scale through our central procurement processes, meaning that we are able to mitigate a large portion of the input cost inflation currently impacting the market. Alongside our procurement efforts, pricing and margin management remain critical activities within the business. We are currently trialling the use of a dynamic pricing model in order to challenge and to fine tune our pricing strategy.

Our focus on maximising bookings continues and we have now set up a central bookings team to take calls which are missed at site, with the conversion rate to a booking of these intercepted calls at 47%.

Food safety and health and safety will always remain a top priority for the business, we are pleased therefore that our safety record improved during the year. At the end of the year 97.5% of our sites were rated good or very good for food hygiene, a higher proportion than any other national pub company.

**Driving an innovation agenda**

Technology continues to evolve at a rapid pace and we have made good progress against our digital strategy which positions us well to benefit from these changes. Technology now impacts each aspect of the guest journey, from learning about our offers to experiences in site with us and our ability to encourage guests to return. One significant area of progress during the year has been the development of our mobile order at table facility, allowing guests to order food and drinks from their own devices. This technology is currently in trial in O'Neill's with a view to roll out across the brand and to identify opportunities in other brands for development and roll out. The order at table facility will be combined with our existing mobile payment platform within our brand apps, facilitating a digital experience throughout the guest journey.

The demand for food delivery within the industry has remained in growth and we have been positioning ourselves in order to benefit from customers' changing habits which we believe provide an opportunity to capture incremental sales. Over the course of the year we have increased the number of sites offering Deliveroo from 25 to 61. We have also carried out a successful trial with JustEat, allowing us to offer Harvester and Toby Carvery delivery as well as click and collect.

**PEOPLE**

As ever, people are central to our company's success. We operate in the hospitality industry where the guest experience is critical and cannot be delivered without the dedication of our 46,000 employees. In the face of numerous changes within the business, we are pleased that our engagement scores have improved by 2.0 pts and our retail team turnover has reduced by 4.1ppts. When considered in the context of the average cost of replacing each team member, including the cost of recruitment, management time and training, this represents a significant cost saving.

Our apprentice scheme is vitally important to us. We believe these young people are the lifeblood of the industry and we are delighted to have added a further 1,300 people to our programme during the financial year.

A further advancement in this area is the launch of our new online training platform containing a complete library of training materials and with the ability to plan and track development. This resource allows employees access to materials which will help them to further their career as and when they want to and also allows them to learn remotely using their own device. The platform also encourages employees to connect and share their learning experiences to encourage others.

**CURRENT TRADING AND OUTLOOK**

In the first 7 weeks of the new financial year like-for-like sales have grown by 2.3%.

We are pleased with the progress made in the last year, having returned the company to sales growth, consistently outperforming the market. However, the market in which we operate presents us with an unprecedented level of challenge and uncertainty. Through this period we shall remain focused on delivering our strategy and give priority to maintaining both the competitiveness of our estate and a strong balance sheet, both of which we believe will leave us well positioned in the long term.

**FINANCIAL REVIEW**

On a statutory basis, profit before tax for the year was £77m (FY 2016 £94m), on sales of £2,180m (FY 2016 £2,086m).

The Group Income Statement additionally discloses adjusted profit and earnings per share information that excludes separately disclosed items to allow a better understanding of the adjusted trading of the Group. Separately disclosed items are those which are separately identified by virtue of their size or incidence.

The financial year being reported on was a 53 week period, therefore in order to facilitate comparison to prior year a restated 52 week summary of performance measures is detailed below. All year-on-year growth rates in the financial review are provided on a 52 week basis.

| | **FY 2017 53 weeks £m** | **FY 2017 52 weeks £m** | **FY 2016 52 weeks £m** | **Variance 52 weeks** |
|---|---|---|---|---|
| Revenue | 2,180 | 2,141 | 2,086 | 2.6% |
| Adjusted operating profit | 314 | 308 | 318 | (3.1%) |
| Adjusted PBT | 183 | 180 | 181 | (0.6%) |
| Adjusted EPS | 34.9p | 34.4p | 34.9p | (1.4%) |
| Adjusted operating profit margin | 14.4% | 14.4% | 15.2% | (0.8ppts) |

At the end of the period, the total estate comprised 1,695 managed businesses and 59 leased businesses, in the UK and Germany.

**Changes in accounting policies**

There have been no changes in accounting policies in the period.

**Revenue**

The Group's total revenues of £2,141m were 2.6% higher than last year, with growth in like-for-like sales supported by new site openings.

Total like-for-like sales[a] grew by 1.8% with food sales up by 1.4% and drink sales by 2.1%. Average spend per item on food was up 5.6%, and average drink spend up 3.9%, reflecting the impact of pricing and the increasing premiumisation of the estate. The uninvested estate saw an improvement in like-for-like sales trajectory of 0.6ppts over the course of the year.

| Like-for-like sales growth: | **Week 1 – 33** | **Week 34 – 53** | **Week 1 – 53** |
|---|---|---|---|
| | **FY 2017** | **FY 2017** | **FY 2017** |
| Food | 1.4% | 1.3% | 1.4% |
| Drink | 2.4% | 1.7% | 2.1% |
| Total | 1.9% | 1.6% | 1.8% |

**Separately disclosed items**

Separately disclosed items are items that are identified due to their nature or materiality to help the reader form a better view of overall and adjusted trading.

A £51m charge was recognised relating to the downward valuation movements on selected sites in the property portfolio resulting from the revaluation (FY 2016 £80m).

A £17m charge for impairment of short leaseholds and unlicensed properties (FY 2016 £8m) was recognised as a result of our annual review of asset carrying values.

A £4m impairment charge was recognised in relation to assets held for sale at the half year and disposed of prior to the year end.

During the year we completed a review focusing on the challenges around sites not currently generating an economic return, the majority of which are short leasehold sites in retail and leisure park locations. With lower footfall on many of these parks and an uncertain economic outlook, alongside increased cost pressures such as living wage, business rates, apprenticeship levy, sugar tax and food price inflation we believe that a number of sites will now be challenged to achieve a breakeven performance. We have therefore extended both the number of sites for which a provision is made and the period recognised. In addition, we have reduced the discount rate used to calculate the present value of the provision to an estimation of the risk free rate. The impact of these judgements is a charge of £35m in the year.

**Operating margins**

Inflationary cost pressures have continued to impact the business and have driven a year-on-year operating margin reduction. Cost increases for the year have impacted labour, utilities, property costs, duty, and food and drink costs. Adjusted operating margins[b] for the full year were 0.8ppts lower than last year at 14.4%.

Adjusted operating profit[b] of £308m was 3.1% lower than last year as a result of the inflationary costs pressures outlined above partially offset by mitigating cost reductions and the improvement we have made in both the invested and uninvested estates' sales performance in the period.

**Internal rent**

A regime of internal rent is in place to enable greater internal transparency around the performance of freehold and long leasehold properties. Operating performance is monitored on a regular basis through a system of profit reviews through all levels of the Group. Estate management is primarily undertaken and monitored by the Portfolio Development Committee.

**Interest**

Net finance costs of £131m for the full year (53 week basis) were £6m lower than last year, reflecting a lower net pensions finance charge of £7m (FY 2016 £12m), and a reduction in Group securitised borrowings.

The full year pensions finance charge for next year will be around £7m.

**Earnings per share**

Basic earnings per share, after the separately disclosed items described above, were 15.1p (FY 2016 21.6p). Adjusted earnings per share[b] were 34.4p, 1.4% lower than last year. The weighted average number of shares in the period of 418m has increased due to the issue of shares as scrip dividends. The total number of shares issued at the balance sheet date is 423m.

**Cash flow and net debt**

The cash flow statement below excludes the net movement on unsecured revolving facilities of £(25)m (FY 2016 £31m).

| | **FY 2017 £m** | **FY 2016 £m** |
|---|---|---|
| EBITDA before adjusted items[b] | 429 | 431 |
| Working capital movement / non-cash items | (10) | (7) |
| Pension deficit contributions | (46) | (49) |
| **Cash flow from operations before adjusted items** | **373** | **375** |
| Capital expenditure | (169) | (167) |

| | | |
|---|---|---|
| Interest | (121) | (125) |
| Tax | (26) | (28) |
| Disposals and other | 46 | 5 |
| **Cash flow before adjusted items** | **103** | **60** |
| Mandatory bond amortisation | (77) | (67) |
| **Net cash flow before dividends** | **26** | **(7)** |
| Dividend | (12) | (31) |
| **Net free cash flow** | **14** | **(38)** |

The business generated £429m of EBITDA before separately disclosed items which are predominantly non-cash. Capital expenditure of £169m was only marginally higher than the prior year although the accelerated capital programme was partially offset by a reduction in maintenance expenditure. Disposals income of £46m is in relation to the 79 sites sold during the year. The annualised EBITDA of these sites was around £5m. After capital expenditure, disposals income, interest and tax, £103m of cash flow was generated by the business. The cash dividend payment of £12m is lower than last year due to take up on the scrip dividend alternative.

Net debt of £1,750m at the year end (FY 2016 £1,840m), represented 4.2 times adjusted EBITDA[c] on a 52 week basis (FY 2016 4.3 times).

**Capital allocation**

The group has a number of fixed charges on its cash flow which it needs to cover before discretionary items, as shown in the cashflow statement above. Namely:

- Pension deficit contributions of £46m per annum indexed until 2023 under the current (2016) triennial agreement; and,

- Mandatory bond amortisation within the existing securitisation. Over the next five years from FY18 to FY22 this will be £82m, £87m, £95m, £104m and £110m respectively.

Neither of these items results in a direct charge against earnings in the Income Statement. As such group capital allocation decisions, particularly across capital expenditure (both on the existing estate and new sites), short term borrowings and dividends to shareholders, are assessed on a cash rather than an earnings basis. In making these choices the Board considers investment to maintain the condition and competitiveness of the existing estate to be of primary importance for the long term health of the business.

Cash flow to the parent company is derived from dividends from subsidiaries, including the securitised estate. To the extent that cash flow to the parent company in any given year, having met all other obligations, is insufficient to fund dividend payments then this must be financed by short term facilities. During the year the parent company renewed its committed short term facilities of £150m, now expiring in December 2020. These were only marginally drawn on the balance sheet date. The Board views the holding of these facilities as a necessary buffer to accommodate volatility in its cash usage and requirements. It does not see them as a substitute for longer term debt or as a means to fund an ongoing dividend stream. As such when assessing dividends the Board would not expect to see a structural, or permanent, increase in the usage of these facilities.

**Capital expenditure**

Total maintenance and infrastructure capex of £53m was £28m lower than the prior year, due to increased remodel and conversion activity supported by initiatives to improve the cost efficiency of maintenance work.

During the year we completed 252 remodels and conversions (FY 2016 252 sites) and opened 13 new sites (FY 2016 8 sites) with investment of return generating capital increasing by £30m. Acquisitions were primarily focused on premiumisation with the opening of six new Miller & Carter sites, including one purpose built restaurant, and five new All Bar Ones. Similarly, the higher proportion of Miller & Carter conversions resulted in the average spend per project increasing, a reflection of the premiumisation strategy.

The EBITDA return across all conversion and acquisition capital invested since FY 2014 is 18%, with projects since the start of the financial year returning 22%. Recent remodel performance has been encouraging, delivering sales uplifts in excess of 10%.

| | FY 2017 | | FY 2016 | |
|---|---|---|---|---|
| | **£m** | **#** | **£m** | **#** |
| **Maintenance and infrastructure** | **53** | | **81** | |
| | | | | |
| Remodels – refurbishment | 42 | 143 | 34 | 137 |
| Remodels – expansionary | 14 | 31 | 13 | 38 |
| Conversions | 39 | 78 | 31 | 77 |
| Acquisitions – freehold | 3 | 1 | 1 | 2 |
| Acquisitions – leasehold | 18 | 12 | 7 | 6 |
| **Total return generating capital expenditure** | **116** | **265** | **86** | **260** |
| | | | | |
| **Total capital expenditure** | **169** | | **167** | |

The Group capital expenditure on the existing estate going forward is expected to be around £180m per year.

**Property**

In line with our property valuation policy, a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall property portfolio has increased by £2m (FY 2016 increase of £128m) reflecting a £72m separately disclosed charge in the income statement and a £74m increase in the revaluation reserve.

**Pensions**

During the year the company reached agreement on the 2016 triennial pensions valuation with the scheme trustees. The agreed deficit of £451m as at 31 March 2016 (2013: £572m) will be funded by an unchanged level of cash contributions (of £46m pa indexed) to 2023, as per the agreement reached in 2013.

In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

**Dividend policy**

Payment of dividends is recognised as an important element of overall shareholder return where this can be achieved sustainably and without undue risk to the ongoing and future health of the business. To that end in determining the affordable level of dividend in any year a number of factors are taken into account. Namely:

- The level of dividend cover both in the current year and looking forward. The Board considers cashflow, rather than earnings, to currently be the more constraining factor on assessing dividends.

- The future investment requirements of the business and the availability and attractiveness of potential strategic opportunities.

- The maintenance of a degree of headroom or prudence against assumptions, particularly with regard to the principal risks as identified in our Annual Report.

- The assessment of the ongoing prospects of the business, having notice of the macroeconomic and sector outlook and the anticipated business performance within that.

- The level of available distributable reserves in the parent company.

The Board keeps its dividend policy in constant review in the context of its capital allocation policies, capital structure, and inherent visibility on trading. We do not expect to declare an interim dividend in the current financial year but will make an assessment of pay-out at the end of the year based on a full year of trading and development of the sector outlook, using the criteria set out above.

For the FY 2017 financial year the Board has recommended a final dividend of 5.0 pence per share (full year 7.5 pence per share) which will be paid on 6 February 2018 to shareholders on the register at the close of business on 15 December 2017. The Board intends to make a scrip dividend alternative available to shareholders, details of the procedure to access this alternative are available on the company website.

**Definitions**

a – Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal. Like-for-like sales are measured against relevant accounting weeks in the prior year. Full year like-for-like sales growth is measured on a 53 week basis. There is a reconciliation of this measure after the notes to this announcement.

b – Adjusted measures are quoted before separately disclosed items as set out in the Group Income Statement and detailed in note 3 of the accounts. There is a reconciliation of this measure after the notes to this announcement.

c – Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA. There is a reconciliation of this measure after the notes to this announcement.

## Group income statement

For the 53 weeks ended 30 September 2017

| | | 2017 53 weeks | | | 2016 52 weeks | | |
|---|---|---|---|---|---|---|---|
| | Notes | Before separately disclosed items £m | Separately disclosed items[a] £m | Total £m | Before separately disclosed items £m | Separately disclosed items[a] £m | Total £m |
| **Revenue** | 2 | **2,180** | **-** | **2,180** | 2,086 | - | 2,086 |
| Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio | 2, 3 | **(1,751)** | **(35)** | **(1,786)** | (1,655) | - | (1,655) |
| Net profit arising on property disposals | | **-** | **1** | **1** | - | 1 | 1 |
| **EBITDA[b]** | | **429** | **(34)** | **395** | 431 | 1 | 432 |
| Depreciation, amortisation and movements in the valuation of the property portfolio | 2, 3 | **(115)** | **(72)** | **(187)** | (113) | (88) | (201) |
| **Operating profit/(loss)** | | **314** | **(106)** | **208** | 318 | (87) | 231 |
| Finance costs | 4 | **(125)** | **-** | **(125)** | (126) | - | (126) |
| Finance revenue | 4 | **1** | **-** | **1** | 1 | - | 1 |
| Net pensions finance charge | 4, 9 | **(7)** | **-** | **(7)** | (12) | - | (12) |
| **Profit/(loss) before tax** | | **183** | **(106)** | **77** | 181 | (87) | 94 |
| Tax (expense)/credit | 5 | **(37)** | **23** | **(14)** | (37) | 32 | (5) |
| **Profit/(loss) for the period** | | **146** | **(83)** | **63** | 144 | (55) | 89 |
| **Earnings per ordinary share** | | | | | | | |
| Basic | 6 | **34.9p** | | **15.1p** | 34.9p | | 21.6p |
| Diluted | 6 | **34.8p** | | **15.0p** | 34.9p | | 21.6p |

a. Separately disclosed items are explained and analysed in note 3.
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 53 weeks ended 30 September 2017

| | Notes | 2017<br>53 weeks<br>£m | 2016<br>52 weeks<br>£m |
|---|---|---|---|
| **Profit for the period** | | **63** | 89 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | |
| Unrealised gain on revaluation of the property portfolio | 7 | **74** | 216 |
| Remeasurement of pension liability | 9 | **8** | (22) |
| Tax relating to items not reclassified | | **(13)** | (21) |
| | | **69** | 173 |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translation of foreign operations | | **1** | 3 |
| Cash flow hedges: | | | |
| - Gains/(losses) arising during the period | | **60** | (116) |
| - Reclassification adjustments for items included in profit or loss | | **53** | 8 |
| Tax relating to items that may be reclassified | | **(19)** | 10 |
| | | **95** | (95) |
| **Other comprehensive income after tax** | | **164** | 78 |
| **Total comprehensive income for the period** | | **227** | 167 |

## Group balance sheet
30 September 2017

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill and other intangible assets | | **10** | 9 |
| Property, plant and equipment | 7 | **4,429** | 4,423 |
| Lease premiums | | **1** | 2 |
| Deferred tax asset | | **110** | 143 |
| Derivative financial instruments | | **41** | 52 |
| **Total non-current assets** | | **4,591** | 4,629 |
| | | | |
| Inventories | | **24** | 25 |
| Trade and other receivables | | **53** | 32 |
| Other cash deposits | | **120** | 120 |
| Cash and cash equivalents | | **147** | 158 |
| Derivative financial instruments | | **2** | 1 |
| Assets held for sale | | **1** | - |
| **Total current assets** | | **347** | 336 |
| | | | |
| **Total assets** | | **4,938** | 4,965 |
| | | | |
| **Liabilities** | | | |
| Pension liabilities | 9 | **(47)** | (46) |
| Trade and other payables | | **(297)** | (293) |
| Current tax liabilities | | **(3)** | (12) |
| Borrowings | | **(235)** | (253) |
| Derivative financial instruments | | **(43)** | (44) |
| **Total current liabilities** | | **(625)** | (648) |
| | | | |
| Pension liabilities | 9 | **(245)** | (291) |
| Borrowings | | **(1,827)** | (1,920) |
| Derivative financial instruments | | **(249)** | (360) |
| Deferred tax liabilities | | **(324)** | (329) |
| Provisions | 10 | **(42)** | (9) |
| **Total non-current liabilities** | | **(2,687)** | (2,909) |
| | | | |
| **Total liabilities** | | **(3,312)** | (3,557) |
| | | | |
| **Net assets** | | **1,626** | 1,408 |
| | | | |
| **Equity** | | | |
| Called up share capital | | **36** | 35 |
| Share premium account | | **26** | 27 |
| Capital redemption reserve | | **3** | 3 |
| Revaluation reserve | | **1,202** | 1,142 |
| Own shares held | | **(1)** | (1) |
| Hedging reserve | | **(244)** | (338) |
| Translation reserve | | **14** | 13 |
| Retained earnings | | **590** | 527 |
| | | | |
| **Total equity** | | **1,626** | 1,408 |

## Group statement of changes in equity

For the 53 weeks ended 30 September 2017

| | 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 26 September 2015** | 35 | 26 | 3 | 938 | (1) | (240) | 10 | 500 | 1,271 |
| Profit for the period | - | - | - | - | - | - | - | 89 | 89 |
| Other comprehensive income/(expense) | - | - | - | 204 | - | (98) | 3 | (31) | 78 |
| **Total comprehensive income/(expense)** | - | - | - | 204 | - | (98) | 3 | 58 | 167 |
| Share capital issued | - | 1 | - | - | - | - | - | - | 1 |
| Purchase of own shares | - | - | - | - | (1) | - | - | - | (1) |
| Release of own shares | - | - | - | - | 1 | - | - | (1) | - |
| Credit in respect of share-based payments | - | - | - | - | - | - | - | 2 | 2 |
| Dividends paid | - | - | - | - | - | - | - | (31) | (31) |
| Tax on share based payments taken directly to equity | - | - | - | - | - | - | - | (1) | (1) |
| **At 24 September 2016** | 35 | 27 | 3 | 1,142 | (1) | (338) | 13 | 527 | 1,408 |
| Profit for the period | - | - | - | - | - | - | - | 63 | 63 |
| Other comprehensive income | - | - | - | 61 | - | 94 | 1 | 8 | 164 |
| **Total comprehensive income** | - | - | - | 61 | - | 94 | 1 | 71 | 227 |
| Credit in respect of share-based payments | - | - | - | - | - | - | - | 2 | 2 |
| Dividends paid | - | - | - | - | - | - | - | (12) | (12) |
| Revaluation reserve realised on disposal of properties | - | - | - | (1) | - | - | - | 1 | - |
| Scrip dividend related share issue | 1 | (1) | - | - | - | - | - | - | - |
| Tax on share based payments taken directly to equity | - | - | - | - | - | - | - | 1 | 1 |
| **At 30 September 2017** | **36** | **26** | **3** | **1,202** | **(1)** | **(244)** | **14** | **590** | **1,626** |

## Group cash flow statement

For the 53 weeks ended 30 September 2017

| | 2017<br>53 weeks<br>£m | 2016<br>52 weeks<br>£m |
|---|---|---|
| **Cash flow from operations** | | |
| Operating profit | **208** | 231 |
| Add back: adjusted items | **106** | 87 |
| Operating profit before adjusted items | **314** | 318 |
| Add back: | | |
| Depreciation of property, plant and equipment | **113** | 111 |
| Amortisation of intangibles | **2** | 2 |
| Cost charged in respect of share-based payments | **2** | 2 |
| Administrative pension costs | **2** | 2 |
| **Operating cash flow before adjusted items, movements in working capital and additional pension contributions** | **433** | 435 |
| Decrease/(increase) in inventories | **1** | (1) |
| Increase in trade and other receivables | **(20)** | (4) |
| Increase/(decrease) in trade and other payables | **7** | (5) |
| Decrease in provisions | **(2)** | (1) |
| Additional pension contributions | **(46)** | (49) |
| **Cash flow from operations before adjusted items** | **373** | 375 |
| Interest paid | **(122)** | (126) |
| Interest received | **1** | 1 |
| Tax paid | **(26)** | (28) |
| **Net cash from operating activities** | **226** | 222 |
| **Investing activities** | | |
| Purchases of property, plant and equipment | **(166)** | (166) |
| Purchases of intangible assets | **(3)** | (1) |
| Proceeds from sale of property, plant and equipment | **46** | 5 |
| **Net cash used in investing activities** | **(123)** | (162) |
| **Financing activities** | | |
| Issue of ordinary share capital | **-** | 1 |
| Purchase of own shares | **-** | (1) |
| Dividends paid (net of scrip dividend) | **(12)** | (31) |
| Repayment of principal in respect of securitised debt | **(77)** | (67) |
| Net movement on unsecured revolving credit facilities | **(25)** | 31 |
| **Net cash used in financing activities** | **(114)** | (67) |
| **Net decrease in cash and cash equivalents** | **(11)** | (7) |
| Cash and cash equivalents at the beginning of the period | **158** | 163 |
| Foreign exchange movements on cash | **-** | 2 |
| **Cash and cash equivalents at the end of the period** | **147** | 158 |

# Notes to the financial statements

## 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. While the financial information included in this release is based on the Group's consolidated financial statements and has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The preliminary financial statements include the results of Mitchells & Butlers plc and all its subsidiaries for the 53 week period ended 30 September 2017. The comparative period is for the 52 week period ended 24 September 2016. The respective balance sheets have been drawn up as at 30 September 2017 and 24 September 2016.

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

### 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.

### Foreign currencies

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.16 (2016 £1 = €1.28), 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 = €1.13 (2016 £1 = €1.16) and £1 = $1.34 (2016 £1 = $1.30) 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 EBITDA and profit before interest and adjusted items (operating profit pre-adjustments) as the key measures 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. At a macro level, rent is set on a market based measure with this being reviewed on a five yearly basis.

**Segmental information**

| | Retail operating business | | Property business | | Total | |
|---|---|---|---|---|---|---|
| | 2017 53 weeks £m | 2016 52 weeks £m | 2017 53 weeks £m | 2016 52 weeks £m | 2017 53 weeks £m | 2016 52 weeks £m |
| Revenue | **2,180** | 2,086 | **-** | - | **2,180** | 2,086 |
| EBITDA pre-adjustments | **213** | 217 | **216**[a] | 214[a] | **429** | 431 |
| Operating profit pre-adjustments | **111** | 117 | **203** | 201 | **314** | 318 |
| Separately disclosed items (note 3) | | | | | **(106)** | (87) |
| Operating profit | | | | | **208** | 231 |
| Net finance costs | | | | | **(131)** | (137) |
| **Profit before tax** | | | | | **77** | 94 |
| Tax expense | | | | | **(14)** | (5) |
| **Profit for the period** | | | | | **63** | 89 |

a. The EBITDA pre-adjustments of the property business relates entirely to rental income received from the retail operating business.

### 3. Separately disclosed items

The items identified in the current period are as follows:

| | Notes | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| **Adjusted items** | | | |
| Net profit arising on property disposals | | **1** | 1 |
| Movement in the valuation of the property portfolio: | | | |
| - Impairment arising from the revaluation | a | **(51)** | (80) |
| - Impairment of short leasehold and unlicensed properties | b | **(17)** | (8) |
| - Impairment of assets held for sale | c | **(4)** | - |
| Net movement in the valuation of the property portfolio | | **(72)** | (88) |
| Other adjusted items: | | | |
| Onerous lease provision additions | d | **(35)** | - |
| **Total adjusted items before tax** | | **(106)** | (87) |
| Tax credit relating to above items | | **23** | 18 |
| Tax credit in respect of change in tax legislation | e | **-** | 14 |
| **Total adjusted items after tax** | | **(83)** | (55) |

a. Impairment arising from the Group's revaluation of its pub estate where their carrying values exceed their recoverable amount.
b. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.
c. Impairment recognised on reclassification of property, plant and equipment to assets held for sale.
d. During the period, a review of estate strategy in relation to managed leasehold sites has been completed, with specific focus on the challenges around loss making sites and those located on retail and leisure parks. The losses are now considered unavoidable for the remaining committed lease term. In addition, the discount rate applied in the calculation has been updated. As a result, the onerous lease provision has been increased significantly with the majority of this increase recognised as a separately disclosed item. See note 10 for further details.
e. The prior year deferred tax credit relates to the enactment of the Finance (No.2) Act 2015 on 18 November 2015 which reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. In addition, the Finance Act 2016 was substantively enacted on 15 September 2016 and reduced the main rate of corporation tax to 17% from 1 April 2020.

### 4. Finance costs and revenue

| | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|
| **Finance costs** | | |
| Interest on securitised debt | **(120)** | (121) |
| Interest on other borrowings | **(4)** | (5) |
| Unwinding of discount on provisions | **(1)** | - |
| Total finance costs | **(125)** | (126) |
| **Finance revenue** | | |
| Interest receivable – cash | **1** | 1 |
| **Net pensions finance charge** (note 9) | **(7)** | (12) |

## 5. Taxation

### Taxation - income statement

| | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|
| Current tax: | | |
| - UK corporation tax | **(20)** | (28) |
| - Amounts over provided in prior periods | **3** | 3 |
| Total current tax charge | **(17)** | (25) |
| Deferred tax: | | |
| - Origination and reversal of temporary differences | **7** | 9 |
| - Adjustments in respect of prior periods | **(4)** | (3) |
| - Change in tax rate | **-** | 14 |
| Total deferred tax credit | **3** | 20 |
| Total tax charged in the income statement | **(14)** | (5) |
| Further analysed as tax relating to: | | |
| Profit before adjusted items | **(37)** | (37) |
| Adjusted items | **23** | 32 |
| | **(14)** | (5) |

## 6. 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 adjusted items in order to allow a better understanding of the adjusted trading performance of the Group.

| | Profit £m | Basic EPS pence per ordinary Share | Diluted EPS pence per ordinary share |
|---|---|---|---|
| **53 weeks ended 30 September 2017:** | | | |
| Profit/EPS | **63** | **15.1p** | **15.0p** |
| Adjusted items, net of tax | **83** | **19.8p** | **19.8p** |
| Adjusted profit/EPS | **146** | **34.9p** | **34.8p** |
| **52 weeks ended 24 September 2016:** | | | |
| Profit/EPS | 89 | 21.6p | 21.6p |
| Adjusted items, net of tax | 55 | 13.3p | 13.3p |
| Adjusted profit/EPS | 144 | 34.9p | 34.9p |

## 6. Earnings per share (continued)

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

| | **2017 53 weeks m** | 2016 52 weeks m |
|---|---|---|
| For basic EPS calculations | **418** | 413 |
| Effect of dilutive potential ordinary shares: | | |
| - Contingently issuable shares | **1** | - |
| For diluted EPS calculations | **419** | 413 |

At 30 September 2017, 3,124,559 (2016 2,697,038) 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. Property, plant and equipment

| | **2017 £m** | 2016 £m |
|---|---|---|
| At beginning of period | **4,423** | 4,242 |
| Additions | **163** | 167 |
| Revaluation | **2** | 128 |
| Disposals | **(3)** | (5) |
| Transfers to assets held for sale | **(43)** | - |
| Depreciation provided during the period | **(113)** | (111) |
| Exchange differences | **-** | 2 |
| At end of period | **4,429** | 4,423 |

**Revaluation of freehold and long leasehold properties**

The freehold and long leasehold properties have been valued at market value, as at 30 September 2017 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.

*Sensitivity analysis*

Changes in either the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties. It is estimated that, given the multiplier effect, a 2.5% change in the EBITDA of the freehold or long leasehold properties would generate an approximate £70m movement in their valuation. It is estimated that a 0.1 change in the multiple would generate an approximate £31m movement in valuation.

## 7. Property, plant and equipment (continued)

### Impairment review of short leasehold and unlicensed properties

Short leasehold and unlicensed properties (comprising land and buildings and fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site value in use calculations to their carrying values. The value in use calculation uses forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 7% (2016 7%). Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculation is insufficient to justify their current net book value.

Current year 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:

| | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|
| **Income statement** | | |
| Revaluation loss charged as an impairment | **(109)** | (144) |
| Reversal of past impairments | **58** | 64 |
| Total impairment arising from the revaluation | **(51)** | (80) |
| Impairment of short leasehold and unlicensed properties | **(17)** | (8) |
| Impairment of assets held for sale | **(4)** | - |
| | **(72)** | (88) |
| **Revaluation reserve** | | |
| Unrealised revaluation surplus | **210** | 329 |
| Reversal of past revaluation surplus | **(136)** | (113) |
| | **74** | 216 |
| **Net increase in property, plant and equipment** | **2** | 128 |

### Assets held for sale

| | **2017 £m** | 2016 £m |
|---|---|---|
| Properties | **1** | - |

In accordance with IFRS 5, properties categorised as held for sale are held at the lower of book value and fair value less costs to sell.

During the period, £43m of properties were classified as held for sale. An impairment of £4m was recognised prior to reclassification.

Subsequently, £42m of properties have been sold, leaving £1m remaining as held for sale at the balance sheet date.

## 8. Net debt

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 other cash deposits. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand.

| Net debt | 2017 £m | 2016 £m |
|---|---|---|
| Cash and bank balances | **147** | 158 |
| Cash and cash equivalents | **147** | 158 |
| Other cash deposits | **120** | 120 |
| Securitised debt | **(1,909)** | (1,995) |
| Liquidity facility | **(147)** | (147) |
| Revolving credit facilities | **(6)** | (31) |
| Derivatives hedging balance sheet debt[a] | **45** | 55 |
| | **(1,750)** | (1,840) |

a. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

| Movement in net debt | 2017 53 weeks £m | 2016 52 weeks £m |
|---|---|---|
| **Net decrease in cash and cash equivalents** | **(11)** | (7) |
| Add back cash flows in respect of other components of net debt: | | |
| Repayment of principal in respect of securitised debt | **77** | 67 |
| Net movement on unsecured revolving facilities | **25** | (31) |
| **Decrease in net debt arising from cash flows** | **91** | 29 |
| Movement in capitalised debt issue costs net of accrued interest | **(1)** | (1) |
| **Decrease in net debt** | **90** | 28 |
| Opening net debt | **(1,840)** | (1,870) |
| Foreign exchange movements on cash | **-** | 2 |
| **Closing net debt** | **(1,750)** | (1,840) |

## 9. Pensions

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 | 2017 53 weeks £m | 2016 52 weeks £m |
|---|---|---|
| Operating profit: | | |
| Employer contributions (defined contribution plans) | **(7)** | (7) |
| Administrative costs (defined benefit plans) | **(2)** | (2) |
| Charge to operating profit | **(9)** | (9) |
| Finance costs: | | |
| Net pensions finance charge on actuarial deficit | **(4)** | (3) |
| Additional pensions finance charge due to minimum funding | **(3)** | (9) |
| Net finance charge in respect of pensions | **(7)** | (12) |
| Total charge | **(16)** | (21) |

**9. Pensions (continued)**

| **Group statement of comprehensive income** | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|
| Return on scheme assets and effects of changes in assumptions | **337** | (148) |
| Movement in pension liability recognised due to minimum funding | **(329)** | 126 |
| Remeasurement of pension liability | **8** | (22) |

| **Group balance sheet** | **2017 £m** | 2016 £m |
|---|---|---|
| Fair value of scheme assets | **2,390** | 2,381 |
| Present value of scheme liabilities | **(2,219)** | (2,587) |
| Actuarial surplus/(deficit) in the schemes | **171** | (206) |
| Additional liability recognised due to minimum funding | **(463)** | (131) |
| Total pension liability[a] | **(292)** | (337) |
| Associated deferred tax asset | **50** | 57 |

a. The total pension liability of £292m (2016 £337m) is represented by a £47m current liability (2016 £46m) and a £245m non-current liability (2016 £291m).

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

| | Scheme assets | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| Fair value of scheme assets at beginning of period | **2,381** | 2,010 |
| Interest income | **53** | 71 |
| Remeasurement gain: | | |
| - Return on scheme assets (excluding amounts included in net finance charge) | **3** | 355 |
| Employer contributions | **46** | 49 |
| Benefits paid | **(91)** | (102) |
| Administration costs | **(2)** | (2) |
| At end of period | **2,390** | 2,381 |

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

| | Defined benefit obligation | |
|---|---|---|
| | **2017 £m** | 2016 £m |
| Present value of defined benefit obligation at beginning of period | **(2,587)** | (2,112) |
| Interest cost | **(57)** | (74) |
| Benefits paid | **91** | 102 |
| Remeasurement losses: | | |
| - Effect of changes in demographic assumptions | **139** | - |
| - Effect of changes in financial assumptions | **164** | (577) |
| - Effect of experience adjustments | **31** | 74 |
| At end of period[a] | **(2,219)** | (2,587) |

a. The defined benefit obligation comprises £34m (2016 £39m) relating to the MABETUS unfunded plan and £2,185m (2016 £2,548m) relating to the funded plans.

**10. Provisions**

The provision for unavoidable losses on onerous property leases has been set up to cover rental payments of vacant or loss-making properties. Payments are expected to continue on these properties for periods of 1 to 19 years.

Provisions can be analysed as follows:

| | Property leases £m |
|---|---|
| At 26 September 2015 | **10** |
| Released in the period | **(2)** |
| Provided in the period | **5** |
| Unwinding of discount | **-** |
| Utilised in the period | **(4)** |
| At 24 September 2016 | **9** |
| Released in the period[a] | **(1)** |
| Provided in the period[b] | **36** |
| Unwinding of discount | **1** |
| Utilised in the period | **(3)** |
| **At 30 September 2017** | **42** |

a. Releases in the period primarily relate to property disposals. This has been recognised within adjusted profit to reflect where the charge for these properties was originally recognised.

b. During the period, a full review of estate strategy in relation to managed leasehold properties has been completed, with specific focus on the challenges around loss making sites and those located on retail and leisure parks. With lower footfall on many of these parks and the continued uncertain economic outlook, alongside increased cost pressures such as living wage, business rates review, apprenticeship levy and sugar tax, a number of short leasehold sites are now challenged when striving to achieve a break-even profit performance. As a result, the losses are now considered unavoidable for the remaining committed lease term for managed properties. In addition, the discount rate applied in the calculation has been updated. As a result of these changes, a £35m increase in the provision which has been included as a separately disclosed item (see note 3).

The remaining increase of £1m is recognised within adjusted profit, as this represents unavoidable losses on unlicensed properties. There is no change in approach for these sites from the prior period.

## 11. Dividends

### Declared and paid in the period

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Total Dividend** | **Settled via scrip** | **Pence per ordinary share** | Total Dividend | Settled via scrip | Pence per ordinary share |
| | **£m** | **£m** | | £m | £m | |
| Interim dividend – 53 weeks ended 30 September 2017 | **11** | **3** | **2.5** | - | - | - |
| Final dividend – 52 weeks ended 24 September 2016 | **21** | **17** | **5.0** | - | - | - |
| Interim dividend – 52 weeks ended 24 September 2016 | **-** | **-** | **-** | 10 | - | 2.5 |
| Final dividend – 52 weeks ended 26 September 2015 | **-** | **-** | **-** | 21 | - | 5.0 |
| | **32** | **20** | | 31 | - | |

The final dividend of 5.0p per ordinary share declared in relation to the 52 weeks ended 24 September 2016 (2015 5.0p) was approved at the Annual General Meeting on 28 January 2017 and was paid to shareholders on 7 February 2017. Shareholders were able to elect to receive ordinary shares credited as fully paid instead of the cash dividend under the terms of the Company's scrip dividend scheme. Of the £21m final dividend, £17m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 227.3 pence per share, resulting in the issue of 7 million new shares, fully paid up from the share premium account. An interim dividend of 2.5p per ordinary share (2016 2.5p) was declared in the period and paid on 3 July 2017. Of the £11m interim dividend, £3m was in the form of the issue of ordinary shares to shareholders opting in to the scrip alternative. The market value per share at the date of payment was 243.2 pence per share, resulting in the issue of 1 million new shares, fully paid up from the share premium account. The nominal value of the 8 million shares issued in relation to the final and interim scrip dividends is £1m.

The Directors propose a final dividend of 5.0p per share for approval at the Annual General Meeting, which equates to £21m based on the number of ordinary shares in issue at 30 September 2017. The dividend will be paid on 6 February 2018 to shareholders on the register at close of business on 15 December 2017.

## 12. Financial Statements

The preliminary statement of results was approved by the Board of Directors on 22 November 2017. It does not constitute the Group's statutory financial statements for the 53 weeks ended 30 September 2017 or for the 52 weeks ended 24 September 2016. The financial information is derived from the statutory financial statements of the Group for the 53 weeks ended 30 September 2017.

Statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 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.

**Alternative Performance Measures**

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 3.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer term strategic plans.

APMs used to explain and monitor Group performance include:

| APM | Definition | Source |
|---|---|---|
| EBITDA | Earnings before interest, tax, depreciation and amortisation. | Group income statement |
| Adjusted EBITDA | Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA. | Group income statement |
| EBITDA before adjusted items | Adjusted measures are quoted before separately disclosed items. | Group income statement |
| Operating profit | Earnings before interest and tax. | Group income statement |
| Adjusted operating profit | Operating profit before separately disclosed items. | Group income statement |
| Like-for-like sales | The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. | |
| Like-for-like sales growth | Like-for-like sales growth reflects the sales performance against the comparable period in the prior year of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal. Like-for-like sales are measured against relevant accounting weeks in the prior year. Full year like-for-like sales growth is measured on a 53 week basis. | |
| Adjusted earnings per share | Earnings per share using profit before separately disclosed items. | Note 6 |
| Net debt : EBITDA | The multiple of net debt as per the balance sheet compared against 52-week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. | |
| Free cash flow | Calculated as operating cash flow less the movement on unsecured revolving credit facilities. | Cash flow statement |

### A. Like-for-like sales

The sales this year compared to the sales in the previous year of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. FY 2017 is a 53 week year and the measure is given for the full year. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

| | Source | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| Reported revenue | Income statement | **2,180** | 2,086 |
| Less non like-for-like sales | Non GAAP | **(288)** | (202) |
| Adjust for 53rd week comparability | Non GAAP | **-** | 34 |
| **Like-for-like sales on a 53 week basis** | | **1,952** | 1,918 |

### B. Adjusted Operating Profit

Operating profit before separately disclosed items as set out in the Group Income Statement. As separately disclosed items are identified as such due to their size or incidence (see note 3) excluding these items allows a better understanding of the trading of the Group.

| | Source | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| Operating profit | Income statement | **208** | 231 |
| Separately disclosed items | Income statement | **106** | 87 |
| **Adjusted operating profit** | | **314** | 318 |

### C. Adjusted Earnings per Share

Earnings per share using profit before separately disclosed items. As separately disclosed items are identified as such due to their size or incidence excluding these items allows a better understanding of the trading of the Group.

| | Source | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| Profit for the period | Income statement | **63** | 89 |
| Separately disclosed items | Income statement | **83** | 55 |
| Adjusted profit | | **146** | 144 |
| Weighted average number of shares | Notes to accounts | **418** | 413 |
| **Adjusted earnings per share** | | **34.9** | 34.9 |

**D. Net Debt: EBITDA**

The multiple of net debt as per the balance sheet compared against 52-week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

| | Source | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| Net debt | Income statement | **1,750** | 1,840 |
| EBITDA | Income statement | **395** | 432 |
| Less separately disclosed items | Non GAAP | **34** | (1) |
| Adjusted for 53rd week | | **(8)** | - |
| Adjusted 52 week EBITDA | | **421** | 431 |
| **Net debt : EBITDA** | | **4.2** | 4.3 |

**E. Free Cash Flow**

Free cash flow excludes the cash movement on unsecured revolving credit facilities and is presented to allow understanding of the cash movements excluding short term debt.

| | Source | **2017 53 weeks £m** | 2016 52 weeks £m |
|---|---|---|---|
| Net decrease in cash and cash equivalents | Cash flow statement | **(11)** | (7) |
| Net movement on unsecured revolving credit facilities | Cash flow statement | **25** | (31) |
| **Net free cash flow** | | **14** | (38) |

**F. FY 2017 52 week reconciliation**

A 53 week accounting period occurs every 5 years. FY 2017 was a 53 week period and therefore presentation of a 52 week basis provides better comparability to previous financial years.

| | Source | 2017 52 weeks | 2017 Week 53 | 2017 53 weeks |
|---|---|---|---|---|
| Revenue | Income statement | £2,141m | £39m | £2,180m |
| Adjusted operating profit | Income statement | £308m | £6m | £314m |
| Adjusted PBT | Income statement | £180m | £3m | £183m |
| Adjusted EPS | Income statement | 34.4p | 0.5p | 34.9p |