MITCHELLS & BUTLERS PLC

22 November 2016

FULL YEAR RESULTS

(For the 52 weeks ended 24 September 2016)

- **Return to like-for-like sales growth**
- **Acceleration of estate investment**
- **Good progress on all three strategic priorities**

Financial performance

- Full year like-for-like sales down 0.8%[a] with improving trend through the year. Recent eight weeks up 0.5%
- Adjusted operating profit of £318m[b] (FY 2015 £328m)
- Adjusted earnings per share of 34.9p[b] (FY 2015 35.7p)
- Final dividend of 5.0p

Reported results

- Total revenue of £2,086m (FY 2015 £2,101m)
- Operating profit of £231m (FY 2015 £270m)
- Profit before tax: £94m (FY 2015 £126m)
- Basic earnings per share: 21.6p (FY 2015 25.0p)

Balance sheet and cash flow

- Capital expenditure £167m (FY 2015 £162m), including 8 new site openings and 252 conversions and remodels
- Free cash flow before adjusted items of £60m[c] (FY 2015: £95m)
- Net debt of £1.84bn representing 4.3 times adjusted EBITDA[b] (FY 2015 4.3 times)

Phil Urban, Chief Executive, commented:

"During the year we have made good progress in our three priority areas: building a more balanced business; instilling a more commercial culture; and driving an innovation agenda. This focus is starting to have a positive effect on our sales, with improved performance against a subdued market in recent months through continuation of the momentum we saw start in the second half of last year. Sales growth in the first eight weeks was impacted by the Rugby World Cup in the prior year, but I'm encouraged by the underlying momentum which has seen recent weeks return to the levels seen in the summer.

In the next year, as previously announced, we face external cost headwinds, notably from further wage inflation, the recent business rates review and exchange rate movements. We are working hard to mitigate these headwinds wherever possible, both through building on our sales momentum and active management of our cost base."

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.

b – Adjusted earnings are quoted before adjusted items as set out in the Group Income Statement and detailed in note 3 of the accounts.

c – Free cash flow before adjusted items excludes £31m dividend payment (FY 2015 £nil); £67m mandatory bond amortisation (FY 2015 £61m); £31m drawn from an unsecured revolving facility (FY 2015 £nil) and, in the prior year, £120m transferred from cash to other cash deposits and £6m of operating adjusted items.

There will be a presentation today for analysts and investors at 8.30am 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: 020 3059 8125 and quote "Mitchells & Butlers". The replay will be available until 29 November 2016 on 0121 260 4861 replay access pin 4486867#.

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

For further information, please contact:

Tim Jones – Finance Director	+44(0)121 498 6112
James Cooper – Investor Relations	+44(0)121 498 4525
James Murgatroyd (Finsbury)	+44(0)20 7251 3801

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 continued to focus on our three strategic priorities:

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

We have started to see early positive results emerging from our work on these priorities. Sales were challenging in the first half of the year, falling by 1.6% on a like-for-like basis. However, in the second half our like-for-like sales grew by 0.2%, improving the full year outturn to 0.8% down. This was in part driven by an increased level of capital investment in our estate but also an improvement in the performance of our sites that have not seen recent investment.

This build in sales momentum has continued from the second half to recent trading after the year end as we have moved from lagging the market, to outperforming consistently[1].

Our adjusted earnings per share fell by 2.2% to 34.9p, reflecting the lower total sales but also a weaker margin in the second half of the year. The National Living Wage was introduced from April 2016, and saw a 7.5% increase in the minimum rate of pay for those aged 25 and over, in addition to the National Minimum Wage which increased by 3.1% in October 2015. The acceleration of investment in our businesses also affected profits, as we incurred a greater number of closure weeks and pre-opening costs. This is an unavoidable short-term impact of improving amenity levels in our businesses but is the right thing to do to enhance our long-term prospects.

OUR PRIORITIES

Building a more balanced business

Our estate comprises more than 1,800 sites, of which more than 80% are freehold or long-leasehold. This provides the opportunity for long-term value generation; our priority is therefore to ensure the estate is set up to extract this value.

Over the coming years, we are committed to improving the quality of the estate: by exposing it to more premium market spaces and by improving the overall level of amenity. The premium market is where we would expect to see the strongest growth, and these spaces offer a form of long-term mitigation towards cost inflation. We are therefore converting several of our businesses towards more premium concepts (both existing and new) as well as making selective site acquisitions and disposals where appropriate.

To this end, within the year we have carried out a full estate review, which gives us a plan for each of our sites. We have recently identified around 75 sites for sale in order to generate greater value for shareholders than if retained as managed businesses. Going forward, we will continue to look at acquisitions and disposals as part of our normal course of business.

It remains our intention to grow Miller & Carter to 100 sites by 2018 and we are well on track to achieve this. This is a proven and successful steakhouse format that generates strong like-for-like sales, and also delivers good returns when we open in new locations. We have grown the brand in the last year from 36 to 52 sites. A small number of these have been acquisitions, with the majority being existing site conversions delivering EBITDA returns of more than 40%. Our portfolio gives us a strong pipeline of future conversion opportunities to continue successfully growing the brand.

We have also evolved our Pizza & Carvery businesses and established the new Stonehouse brand in summer 2016. This is a reinvention of our Crown Carveries brand, involving modernisation of the amenity whilst enhancing the menu to broaden its appeal. At the end of FY 2016 we had 36 sites under the new brand. This remains a strong value format, but with a more premium offer than prior to conversion. As with Miller & Carter, these are largely existing site conversions, and are generating returns of around 25%. We will aim to grow Stonehouse to around 80 sites by 2018.

Our estate's amenity level has improved through our remodel programme, which encompasses all our brands and allows us to develop the guest proposition whilst maintaining and enhancing the estate through capital investment. An example of this is Harvester, which has faced increased competition in recent years. We have evolved our 'Feel Good Dining' remodel solution, which sees us spend around £400,000 of capex per site, and is delivering a return of around 25% in the 32 sites in which it has so far been implemented. We have a pipeline of Harvester sites to continue the rollout of this format.

In total, we completed 252 remodels and conversions in FY 2016 (FY 2015: 167), moving us towards a six-year investment cycle for all our sites. We will continue to increase this to around 300 remodels and conversions in FY 2017, which we expect to be broadly the rate in future years.

Instilling a more commercial culture

Across our retail teams and our support centre we employ more than 43,000 people. Engagement of this team is critical to achieving growth in profitable sales. Given the challenges we face as a business and an industry, it is critical we execute well and at pace.

To facilitate this, we underwent an organisational restructure this year, creating four operating divisions, each containing similar brands and customer types. The four Divisional Directors leading these each now sit on the Executive Committee. Organisationally, we have also identified a number of clear workstreams aligned to our three priorities. These changes enable us to make much quicker decisions, with our workstream teams empowered to be decisive, work their way through barriers, and deliver effectively.

We have focused our work in this area across a wide range of activities. There has been a significant drive towards resolving our guests' complaints more quickly. A year ago it was taking an unacceptable average of 11 days to resolve a guest complaint. We quickly reduced this to our target of just over 2 days, and successfully maintained this level. This will continue to be an important area for our teams.

Much of our work in this area has been around creating a more sales-focused culture, and we will continue to have an ongoing number of initiatives to achieve this. Examples from the last year include dedicated sales training provided to all the operational teams, an incentive scheme in the second half of the year which awarded cash bonuses for improving sales trends, and the establishment of a London-based sales team to fill secondary space and increase levels of corporate bookings.

Grow through innovation and technology

Innovation and technology are critical areas for us as a business, in terms of efficiency, attracting and interacting with guests and remaining competitive in our markets.

A key area of focus is to build on our existing technology, given the systems investment we have made in recent years. We have developed our online bookings system to increase the availability of short-term bookings and to integrate with third party booking providers to extend our reach. Our bookings have grown, such that more than half our restaurant bookings are now made online. We are looking at various other ways to improve efficiency and the guest experience, including enhanced wifi provision in our sites and the trialling of alternative payment technology.

We have also developed our digital strategy across key guest interaction areas: acquisition, experience, customer relationship management, loyalty, and social media. The relentless nature of digital development is such that we must continually enhance our skills in this area. In the last year we developed five new brand apps, which have collectively had more than 400,000 downloads, and achieve a significantly higher booking conversion rate than through traditional email communication. We are looking to build on this through the addition of loyalty incentives into forthcoming apps for Browns and Miller & Carter. We have increased our social media presence, consolidated 10m guests' details on our central database, our gift card sales have increased by more than 40% and we have carried out several successful campaigns with affiliates.

Food delivery is becoming increasingly important to the industry, and we have carried out an initial successful trial with Deliveroo across 25 All Bar One and Browns sites. Given the early success, we are working to roll this out further across our brands, in different locations and with different third party providers. We believe that this model can apply to around a quarter of the estate, and that it provides a good opportunity to generate incremental sales.

We have increased our use of TripAdvisor as a guest interaction tool by providing all our house managers with accounts and encouraging its usage. We will look to develop this further in the year ahead, but have already seen the number of reviews significantly increase, as well as our average rating rise by more than 8%. Early results from our increased usage of TripAdvisor suggest that better scores correlate with higher like-for-like sales, increased bookings and a reduction in the average number of complaints.

Finally, we have stated that we will look to carry out new concept and product development, to maintain the appeal of our existing brands and innovate in new markets. As noted previously, we have launched the new Stonehouse brand, a successful innovation to evolve and transform the Crown Carveries brand. We are also on the point of launching a casual dining rotisserie-style concept aimed at the millennials market under the brand of 'Chicken Society'. This provides us with an opportunity to test a new concept which may be later rolled out to further sites. We expect to take the learnings from this and to develop a pipeline of further new concepts this financial year.

EXTERNAL ENVIRONMENT

Market supply

In recent years the eating-out market has seen a significant increase in the supply of restaurants. In the year to June 2015 there were over 1,700 net restaurant openings – broadly the equivalent of our own business in terms of outlet numbers. This provided us with many new local competitors and impacted our mid-market brands in particular, as a number of these openings were close to our own high-quality trading locations.

However, since the summer of 2015 the rate of openings has slowed considerably, most likely as a result of the cost headwinds the sector faces, notably the announcement of the introduction of the National Living Wage in July 2015. Net restaurant openings are now broadly flat year-on-year, which gives us an opportunity to win back market share. It therefore remains imperative that we focus on our priorities to maintain our competitive position through our range of brands and formats, our high quality locations, and the delivery of our offers to guests.

EU referendum

We believe it is too early to predict with any certainty what the impact of Brexit on the economy might be, particularly without clarity on exit terms. However there are broadly three areas in which Brexit may affect us in the medium to long term: changes in consumer confidence and behaviour; changes to employment and immigration laws; and changes to input costs. The first two of the three are largely unknown at

present, and therefore our approach is to stay close to developments whilst continuing to support all our 43,000 employees.

Input costs will be impacted by the value of sterling, which has fallen significantly since the EU referendum. We have a small number of sites trading in Germany, but otherwise our international trade is defined by our supply chain. The net effect of a weaker sterling is therefore profit dilutive due to the food and drink which is purchased in foreign currency, although this is partially mitigated in the next financial year by existing contracts.

CURRENT TRADING AND OUTLOOK

In the first eight weeks of the current year like-for-like sales have increased by 0.5%, continuing the momentum that we started to build in the second half of last year.

Although we are working hard to take mitigating action where possible, we expect to see downward pressure on margins in this financial year, as our sector incurs the additional cost headwinds including the first full year of the National Living Wage, indications of two potential increases in the National Minimum Wage, the impact of exchange rate movements on foreign currency denominated purchases, and the recent business rates review.

Despite these challenges, we remain encouraged by the progress we have seen so far, in particular the strengthening of our performance against the market. We will continue focusing on our three priorities, and believe that by doing so we can continue to generate long-term shareholder value.

NOTES:

1. Coffer Peach Business Tracker

FINANCIAL REVIEW

On a statutory basis, profit before tax for the period was £94m (FY 2015 £126m), on sales of £2,086m (FY 2015 £2,101m).

The Group Income Statement discloses adjusted profit and earnings per share information that excludes separately disclosed items to allow a better understanding of the underlying trading of the Group. Separately disclosed items are described below and detailed in note 3 of the accounts. Adjusted earnings per share fell by 2.2% in 2016 to 34.9 pence.

At the end of the financial year, the total estate comprised 1,768 managed businesses and 57 franchised businesses, in the UK and Germany.

The forthcoming year, to 30 September 2017, will be a 53 week accounting year to maintain alignment of accounting and calendar dates.

Accounting policies

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

Revenue

The Group's total revenues fell by 0.7% to £2,086m, largely as a result of a fall in like-for-like sales, with a small number of acquisitions and disposals in the year.

Like-for-like sales growth / (decline):	**Week 1 – 28 FY 2016**	**Week 29 – 52 FY 2016**	**Week 1 – 52 FY 2016**
Total	(1.6%)	0.2%	(0.8%)
Food	(2.0%)	(0.8%)	(1.4%)
Drink	(1.5%)	1.3%	(0.1%)

Total like-for-like sales fell by 0.8%, recovering from a fall of 1.6% in the first half. Across the year, like-for-like food volumes fell by 5.7%, with food spend per head up 4.6%. The increase in food spend per head was driven partially by the changing balance of the estate, for example from Harvester sites being converted to Miller & Carter, which trades at a higher price point, as well as selective price increases. Drink sales reflected average spend per head growth of 4.1% offset by like-for-like volume decline of 4.0%.

Operating margins

Adjusted operating margins for the year were 15.2%, 0.4ppts below 2015. Margins in the first half were 0.5ppts higher than last year, having benefited from non-recurring savings on prior year costs such as the Orchid head office closure and IT projects.

In the second half, as anticipated, margins were below the prior year, by 1.3ppts. The introduction of the National Living Wage, in addition to National Minimum Wage increases earlier in the year, drove an increase in employment costs, which ended the year 5.2% higher than in 2015. Margin was also impacted by the cost of accelerating the level of investment in remodels and conversions in line with our priority of building a more balance estate, with a greater number of closure weeks and pre-opening costs incurred. These factors were partially mitigated by food and drink sales being driven by increased spend per head, and by continued benign cost conditions in energy and food and drink input markets.

Adjusted operating profit for the year was £318m, 3.0% lower than 2015.

Looking forward to FY 2017, we see continued cost pressure facing the business as further increases in the National Living Wage and National Minimum Wage are compounded, in particular by:

- the impact of the weakness in sterling on our c£100m of foreign currency denominated purchases; and
- the introduction of a new regime of business rates (effective from April 2017) which is likely to see an annual increase across our estate of £18m over 5 years (of which around £5m will impact in FY 2017).

We have a large number of activities underway to mitigate the cost headwinds as far as possible, both through cost savings and growing sales as detailed elsewhere in this report. However, we expect the net impact to put downward pressure on operating margins.

Separately disclosed items

Separately disclosed items comprise:

- an £80m charge relating to downward valuation movements on selected sites in the property portfolio resulting from the revaluation (FY 2015 £54m). Overall the property portfolio valuation increased by £128m to £4.4bn;
- an £8m charge for impairment of short leaseholds and unlicensed properties (FY 2015 £11m)
- a £1m net profit from the disposal of properties (FY 2015 £7m); and
- deferred tax credits relating to property revaluations and the future reduction in the standard UK corporation tax rate, as detailed below.

Interest

Net finance costs of £137m were £7m lower than the prior year. The net pensions finance charge of £12m was £3m lower than in 2015, and there was a reduction in the annual interest charge on reduced net borrowings.

For FY17 we expect the pensions finance charge to reduce to £7m.

Taxation

The tax charge of £5m in the year represents an effective rate on total profits of 5.3% (FY 2015 18.3%). This is mainly due to recognition of a deferred tax credit arising from the reduction in the standard rate of UK corporation tax to 17% from April 2020 (as enacted in the Finance Act 2016).

The effective tax rate on adjusted earnings was 20.4%.

Earnings per share

Adjusted earnings per share were 34.9p, 2.2% lower than last year. After the adjusted items described above, basic earnings per share were 21.6p (FY 2015 25.0p).

Cash flow and net debt

The cash flow statement below excludes £67m of mandatory bond amortisation (FY 2015 £61m), £31m drawn from unsecured revolving credit facilities (FY 2015 £nil) and, in the prior year, £120m transferred from cash to other cash deposits.

	FY 2016 £m	FY 2015 £m
EBITDA before adjusted items	431	439
Working capital movement / non-cash items	(7)	48
Pension deficit contributions	(49)	(86)
Cash flow from operations before adjusted items	**375**	**401**
Maintenance and infrastructure capex	(115)	(116)
Expansionary capex	(52)	(46)
Net interest	(125)	(127)
Tax	(28)	(25)
Disposals and other	5	8
Free Cash Flow before adjusted items	**60**	**95**
Dividend	(31)	-
Operating adjusted items	-	(6)
Net cash flow	**29**	**89**

The business generated £431m of EBITDA in the year. Pension deficit contributions of £49m were lower than the prior year, which included a one-off contribution of £40m agreed as part of the last triennial valuation. After capital expenditure, interest and tax, £60m of free cash before exceptional items was generated by the business (FY 2015 £95m).

Net debt was £1,840m, representing 4.3 times adjusted EBITDA (FY 2015 4.3 times). Net debt within the securitisation was £1,834m and net borrowings held outside the securitisation were £6m.

Capital expenditure

Total maintenance and infrastructure capex was £115m (FY 2015 £116m).

Expansionary capex of £52m was £6m higher than last year, driven by additional spend on conversions and major remodels in line with our strategic priorities, and a reduction in acquisition capex due to fewer new openings.

Total remodel activity increased to cover 175 sites (FY 2015 116) at an investment cost of £47m (FY 2015 £34m). Within this, certain large scale remodel projects, where the brand name or guest offer is materially altered by the nature and level of investment, are now included within expansionary capex.

The number of conversions has also increased from 51 to 77, including 12 Miller & Carter sites and 36 sites under our new Stonehouse concept.

	FY 2016		FY 2015	
	£m	**#**	**£m**	**#**
Maintenance and infrastructure (excluding remodels)	81		82	
Remodels – maintenance	34	137	34	116
Remodels – expansionary	13	38	-	-
Conversions	31	77	23	51
Sub-total	78	252	57	167
Acquisitions – freehold	1	2	10	4
Acquisitions – leasehold	7	6	13	10
Total capital expenditure	**167**		**162**	

The annual incremental EBITDA return on expansionary capital invested cumulatively since FY 2013 improved to 20% (FY 2015 18%).

Property

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 portfolio value has increased by £128m (FY 2015 decrease of £40m) reflecting an £88m separately disclosed charge in the income statement and a £216m increase in the revaluation reserve.

Pensions

The Company continues to make pensions deficit payments based on the schedule of contributions agreed as part of the triennial valuations at 31 March 2013, based on an assessed funding shortfall at that time of £572m. The discounted value of the minimum funding requirement agreed as part of the revised schedule of contributions is recognised in the balance sheet at £337m (FY 2015 £350m) before tax.

Negotiations are ongoing between the Company and the Trustees of the pension schemes regarding the latest valuation, which is to be prepared as at 31 March 2016.

Dividends

The Board has approved a final dividend of 5.0 pence per share (full year 7.5 pence per share) to shareholders on the register as at 2 December 2016, to be paid on 7 February 2017.

The Board intends to make a scrip dividend alternative available to shareholders, subject to the relevant approvals at the AGM. Shareholders who wish to join the Scrip Dividend Scheme should complete a Scrip Dividend Mandate form and return it to the registrars no later than 17 January 2017.

Responsibility statement

We confirm to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes 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; and
- The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 21 November 2016 and is signed on its behalf by Tim Jones, Finance Director.

Group income statement
For the 52 weeks ended 24 September 2016

	2016 52 weeks			2015 52 weeks		
	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	2,086	-	2,086	2,101	-	2,101
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	(1,655)	-	(1,655)	(1,662)	-	(1,662)
Net profit arising on property disposals	-	1	1	-	7	7
EBITDA[b]	431	1	432	439	7	446
Depreciation, amortisation and movements in the valuation of the property portfolio	(113)	(88)	(201)	(111)	(65)	(176)
Operating profit/(loss)	318	(87)	231	328	(58)	270
Finance costs	(126)	-	(126)	(130)	-	(130)
Finance revenue	1	-	1	1	-	1
Net pensions finance charge	(12)	-	(12)	(15)	-	(15)
Profit/(loss) before tax	181	(87)	94	184	(58)	126
Tax (expense)/credit	(37)	32	(5)	(37)	14	(23)
Profit/(loss) for the period	144	(55)	89	147	(44)	103
Earnings per ordinary share						
Basic	34.9p		21.6p	35.7p		25.0p
Diluted	34.8p		21.5p	35.5p		24.9p

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 52 weeks ended 24 September 2016

	2016 52 weeks £m	2015 52 weeks £m
Profit for the period	89	103
Items that will not be reclassified subsequently to profit or loss:		
Unrealised gain on revaluation of the property portfolio	216	25
Remeasurement of pension liability	(22)	6
Tax relating to items not reclassified	(21)	(9)
	173	22
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	3	(1)
Cash flow hedges:		
- Losses arising during the period	(116)	(86)
- Reclassification adjustments for items included in profit or loss	8	31
Tax relating to items that may be reclassified	10	11
	(95)	(45)
Other comprehensive income/(loss) after tax	78	(23)
Total comprehensive income for the period	167	80

Group balance sheet

24 September 2016

	2016	2015
	£m	£m
Assets		
Goodwill and other intangible assets	9	10
Property, plant and equipment	4,423	4,242
Lease premiums	2	2
Deferred tax asset	143	156
Derivative financial instruments	52	19
Total non-current assets	4,629	4,429
Inventories	25	24
Trade and other receivables	32	46
Other cash deposits	120	120
Cash and cash equivalents	158	163
Derivative financial instruments	1	-
Total current assets	336	353
Total assets	4,965	4,782
Liabilities		
Pension liabilities	(46)	(46)
Trade and other payables	(293)	(317)
Current tax liabilities	(12)	(15)
Borrowings	(253)	(214)
Derivative financial instruments	(44)	(43)
Total current liabilities	(648)	(635)
Pension liabilities	(291)	(304)
Borrowings	(1,920)	(1,960)
Derivative financial instruments	(360)	(253)
Deferred tax liabilities	(329)	(349)
Provisions	(9)	(10)
Total non-current liabilities	(2,909)	(2,876)
Total liabilities	(3,557)	(3,511)
Net assets	1,408	1,271
Equity		
Called up share capital	35	35
Share premium account	27	26
Capital redemption reserve	3	3
Revaluation reserve	1,142	938
Own shares held	(1)	(1)
Hedging reserve	(338)	(240)
Translation reserve	13	10
Retained earnings	527	500
Total equity	1,408	1,271

Group statement of changes in equity

For the 52 weeks ended 24 September 2016

	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 27 September 2014	35	24	3	918	(4)	(196)	11	394	1,185
Profit for the period	-	-	-	-	-	-	-	103	103
Other comprehensive income/(expense)	-	-	-	20	-	(44)	(1)	2	(23)
Total comprehensive income/(expense)	-	-	-	20	-	(44)	(1)	105	80
Share capital issued	-	2	-	-	-	-	-	-	2
Release of own shares	-	-	-	-	3	-	-	(1)	2
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
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

Group cash flow statement

For the 52 weeks ended 24 September 2016

	2016 52 weeks £m	2015 52 weeks £m
Cash flow from operations		
Operating profit	231	270
Add back: adjusted items	87	58
Operating profit before adjusted items	318	328
Add back:		
Depreciation of property, plant and equipment	111	109
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	435	443
(Increase)/decrease in inventories	(1)	3
(Increase)/decrease in trade and other receivables	(4)	22
(Decrease)/increase in trade and other payables	(5)	21
Decrease in provisions	(1)	(2)
Additional pension contributions	(49)	(86)
Cash flow from operations before adjusted items	375	401
Cash flow from adjusted items	-	(6)
Interest paid	(126)	(129)
Interest received	1	2
Tax paid	(28)	(25)
Net cash from operating activities	222	243
Investing activities		
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	-	(1)
Purchases of property, plant and equipment	(166)	(157)
Purchases of intangible assets	(1)	(3)
Payment of lease premium	-	(2)
Proceeds from sale of property, plant and equipment	5	6
Transfers to other cash deposits	-	(120)
Net cash used in investing activities	(162)	(277)
Financing activities		
Issue of ordinary share capital	1	2
Purchase of own shares	(1)	-
Proceeds on release of own shares	-	1
Dividends paid	(31)	-
Repayment of principal in respect of securitised debt	(67)	(61)
Net movement on unsecured revolving credit facilities	31	-
Net cash used in financing activities	(67)	(58)
Net decrease in cash and cash equivalents	(7)	(92)
Cash and cash equivalents at the beginning of the period	163	255
Foreign exchange movements on cash	2	-
Cash and cash equivalents at the end of the period	158	163

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 52 week period ended 24 September 2016. The comparative period is for the 52 week period ended 26 September 2015. The respective balance sheets have been drawn up as at 24 September 2016 and 26 September 2015.

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 = €1.28 (2015 £1 = €1.37), 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 = €1.16 (2015 £1 = €1.36) and £1 = $1.30 (2015 £1 = $1.52) 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. At a micro level, the property business charges rent to the retail operating business based on the performance of the individual outlets. The internal rent charge is eliminated at the total Group level.

Segmental information

	Retail operating business		Property business		Total	
	2016 52 weeks £m	2015 52 weeks £m	2016 52 weeks £m	2015 52 weeks £m	2016 52 weeks £m	2015 52 weeks £m
Revenue	2,086[a]	2,101[a]	-	-	2,086	2,101
EBITDA pre-adjustments	218	219	214[b]	220[b]	431	439
Operating profit pre-adjustments	117	121	201	207	318	328
Separately disclosed items (note 3)					(87)	(58)
Operating profit					231	270
Net finance costs					(137)	(144)
Profit before tax					94	126
Tax expense					(5)	(23)
Profit for the period					89	103

a. Revenue includes other income of £6m (2015 £6m) in respect of MAB Leased operations and £nil (2015 £6m) in respect of sales of development properties.

b. 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	2016 52 weeks £m	2015 52 weeks £m
Adjusted items			
Net profit arising on property disposals	a	1	7
Movement in the valuation of the property portfolio:			
- Impairment arising from the revaluation		(80)	(54)
- Other impairment	b	(8)	(11)
Net movement in the valuation of the property portfolio		(88)	(65)
Total adjusted items before tax		(87)	(58)
Tax credit relating to above items		18	14
Tax credit in respect of change in tax legislation	c	14	-
Total adjusted items after tax		(55)	(44)

a. The 2015 profit includes the release of a £5m accrual for costs in relation to the disposal of properties in prior periods.
b. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.
c. The Finance (No.2) Act 2015 was enacted on 18 November 2015 and reduced the main rate of corporation tax from 20% to 19% from 1 April 2017. 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. The effect of these changes has been reflected in the closing deferred tax balance at 24 September 2016.

4. Finance costs and revenue

	2016 52 weeks £m	2015 52 weeks £m
Finance costs		
Interest on securitised and other debt	(126)	(130)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 9)	(12)	(15)

5. Taxation

Taxation - income statement

	2016 52 weeks £m	2015 52 weeks £m
Current tax:		
- UK corporation tax	(28)	(21)
- Amounts over provided in prior periods	3	3
Total current tax charge	(25)	(18)
Deferred tax:		
- Origination and reversal of temporary differences	9	(6)
- Adjustments in respect of prior periods – overseas tax losses	-	4
- Adjustments in respect of prior periods – other	(3)	(3)
- Change in tax rate	14	-
Total deferred tax credit/(charge)	20	(5)
Total tax charged in the income statement	(5)	(23)
Further analysed as tax relating to:		
Profit before adjusted items	(37)	(37)
Adjusted items	32	14
	(5)	(23)

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 (see note 3) 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 24 September 2016:			
Profit/EPS	89	21.6p	21.5p
Adjusted items, net of tax	55	13.3p	13.3p
Adjusted profit/EPS	144	34.9p	34.8p
52 weeks ended 26 September 2015:			
Profit/EPS	103	25.0p	24.9p
Adjusted items, net of tax	44	10.7p	10.6p
Adjusted profit/EPS	147	35.7p	35.5p

6. Earnings per share (continued)

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

	2016 52 weeks m	2015 52 weeks m
For basic EPS calculations	413	412
Effect of dilutive potential ordinary shares:		
- Contingently issuable shares	-	1
- Other share options	-	1
For diluted EPS calculations	413	414

At 24 September 2016, 2,697,038 (2015 379,182) 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

Property, plant and equipment

	2016 24 September £m	2015 26 September £m
At beginning of period	4,242	4,237
Additions	167	158
Revaluation	128	(40)
Disposals	(5)	(5)
Depreciation provided during the period	(111)	(109)
Exchange differences	2	1
At end of period	4,423	4,242

Revaluation/impairment

The freehold and long leasehold properties have been valued at market value, as at 24 September 2016 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.

The carrying values of property, plant and equipment which are not re-valued to fair market value have been reviewed for impairment using forecast cash flows, discounted by applying a pre-tax discount rate of 7% (2015 7%). This impairment relates to outlets with poor trading performance, that are unlikely to generate sufficient cash in the future to justify their current net book value.

7. Property, plant and equipment (continued)

Revaluation/impairment (continued)

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 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 £32m movement in valuation.

It is estimated that a 1% increase in the discount rate applied during the impairment review, would increase the impairment of property, plant and equipment, which are not re-valued, by approximately £250,000.

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:

	2016 52 weeks £m	2015 52 weeks £m
Income statement		
Revaluation loss charged as an impairment	(144)	(90)
Reversal of past impairments	64	36
Total impairment arising from the revaluation	(80)	(54)
Impairment of short leasehold and unlicensed properties	(8)	(11)
	(88)	(65)
Revaluation reserve		
Unrealised revaluation surplus	329	141
Reversal of past revaluation surplus	(113)	(116)
	216	25
Net increase/(decrease) in property, plant and equipment	128	(40)

8. Net debt

Net debt	2016 £m	2015 £m
Cash and cash equivalents	158	163
Other cash deposits	120	120
Securitised debt	(1,995)	(2,027)
Liquidity facility	(147)	(147)
Revolving credit facilities	(31)	-
Derivatives hedging balance sheet debt[a]	55	21
	(1,840)	(1,870)

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.

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.

8. Net debt (continued)

Movement in net debt	2016 52 weeks £m	2015 52 weeks £m
Net decrease in cash and cash equivalents	(7)	(92)
Add back cash flows in respect of other components of net debt:		
Transfers to other cash deposits	-	120
Repayment of principal in respect of securitised debt	67	61
Net movement on unsecured revolving facilities	(31)	-
Decrease in net debt arising from cash flows	29	89
Movement in capitalised debt issue costs net of accrued interest	(1)	(1)
Decrease in net debt	28	88
Opening net debt	(1,870)	(1,958)
Foreign exchange movements on cash	2	-
Closing net debt	(1,840)	(1,870)

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	2016 52 weeks £m	2015 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	(3)	(6)
Additional pensions finance charge due to minimum funding	(9)	(9)
Net finance charge in respect of pensions	(12)	(15)
Total charge	(21)	(24)

Group statement of comprehensive income	2016 52 weeks £m	2015 52 weeks £m
Return on scheme assets and effects of changes in assumptions	(148)	13
Movement in pension liability recognised due to minimum funding	126	(7)
Remeasurement of pension liability	(22)	6

9. Pensions (continued)

Group balance sheet	2016 £m	2015 £m
Fair value of scheme assets	2,381	2,010
Present value of scheme liabilities	(2,587)	(2,112)
Actuarial deficit in the schemes	(206)	(102)
Additional liability recognised due to minimum funding	(131)	(248)
Total pension liability[a]	(337)	(350)
Associated deferred tax asset	57	70

a. The total pension liability of £337m (2015 £350m) is represented by a £46m current liability (2015 £46m) and a £291m non-current liability (2015 £304m).

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

	Scheme assets	
	2016 £m	2015 £m
Fair value of scheme assets at beginning of period	2,010	1,865
Interest income	71	71
Remeasurement gain:		
- Return on scheme assets (excluding amounts included in net finance charge)	355	63
Employer contributions	49	86
Benefits paid	(102)	(73)
Administration costs	(2)	(2)
At end of period	2,381	2,010

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

	Defined benefit obligation	
	2016 £m	2015 £m
Present value of defined benefit obligation at beginning of period	(2,112)	(2,058)
Interest cost	(74)	(77)
Benefits paid	102	73
Remeasurement losses:		
- Effect of changes in demographic assumptions	-	(12)
- Effect of changes in financial assumptions	(577)	(38)
- Effect of experience adjustments	74	-
At end of period[a]	(2,587)	(2,112)

a. The defined benefit obligation comprises £39m (2015 £25m) relating to the MABETUS unfunded plan and £2,548m (2015 £2,087m) relating to the funded plans.

10. Dividends

	2016 £m	2015 £m
Declared and paid in the period		
Final dividend for 52 weeks ended 26 September 2015 of 5.0p per share	21	-
Interim dividend for 52 weeks ended 24 September 2016 of 2.5p per share	10	-
	31	-

The Directors propose a final dividend of 5.0p per share, amounting to £21m, for approval at the Annual General Meeting. The dividend will be paid on 7 February 2017 to shareholders on the register at close of business on 2 December 2016.

11. Financial Statements

The preliminary statement of results was approved by the Board of Directors on 21 November 2016. It does not constitute the Group's statutory financial statements for the 52 weeks ended 24 September 2016 or for the 52 weeks ended 26 September 2015. The financial information is derived from the statutory financial statements of the Group for the 52 weeks ended 24 September 2016.

Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 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.