MITCHELLS & BUTLERS PLC

24 November 2015

FULL YEAR RESULTS

(For the 52 weeks ended 26 September 2015)

Strong earnings growth and resumption of dividend

Financial performance

- Total revenue of £2,101m, up 6.6%
- FY 2015 like-for-like sales growth of 0.8%[a]
- Adjusted operating profit of £328m[b], up 4.8%
- Adjusted earnings per share of 35.7p[b], up 9.5%
- Adjusted net cash inflow of £89m[c] (FY 2014 £199m outflow)
- Final dividend of 5p recommended

Reported results

- Profit before tax: £126m (FY 2014 £123m)
- Basic earnings per share: 25.0p (FY 2014 22.6p)

Balance sheet and cash flow

- Capital expenditure £162m (FY 2014: £162m), including 14 new site openings and 51 conversions
- Net debt of £1.87bn representing 4.3 times annualised adjusted EBITDA (FY 2014 4.5 times)

Operational highlights

- Adjusted operating margin 15.6%[b] (FY 2014: 15.9%), impacted by Orchid
- Orchid integration on track with 41 completed conversions performing well and closure of head office

Phil Urban, Chief Executive, commented:

"In the last year we have increased our earnings by 9.5%[b], and I am delighted to announce the resumption of the dividend.

Since joining Mitchells & Butlers in January I have seen first-hand the potential within the business. The market remains highly competitive but I have identified our key priorities to realise that potential. We will build a more balanced business; instil a more commercial culture; and increase the pace of execution and innovation. We are confident that with this approach we will drive sustained profit growth and enhanced shareholder returns."

Definitions

a – Like-for-like sales growth includes the sales performance against the comparable period in the prior year of all UK managed pubs, bars and restaurants that were trading in the two periods being compared. Like-for-like sales are measured against relevant accounting weeks in the prior year.

b – Adjusted earnings are quoted before exceptional items as set out in note 3 in the Group Income Statement.

c – Adjusted net cash flow excludes £61m (FY 2014 £58m) mandatory bond amortisation; £120m (FY 2014 £25m) transferred from cash to other cash deposits and, in the prior year, £147m which the Group was obliged to draw down from a liquidity facility under the terms of the securitisation. Adjusted net cash flow is detailed within the Financial Review.

There will be a presentation for analysts and investors at 8.15am at Nomura International plc, 1 Angel Lane, London, EC4R 3AB. A live webcast of the presentation will be available at www.mbplc.com. The conference will also be accessible by phone: 0203 059 8125 and quote "Mitchells & Butlers". The replay will be available until 30 November 2015 on 0121 260 4861 replay access pin 2071292#.

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

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Notes for editors:

- Mitchells & Butlers is a leading operator of managed restaurants and pubs. Its portfolio of brands and formats includes Harvester, Toby Carvery, Country Pubs, Sizzling Pubs, Crown Carveries, Oak Tree Pubs, All Bar One, Browns, Miller & Carter, Castle, Alex, Nicholson's, O'Neill's and Ember Inns. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary.
- Mitchells & Butlers serves around 140 million meals and 430 million drinks each year and is one of the largest operators within the UK's £80 billion eating and drinking out market.

BUSINESS REVIEW

Mitchells & Butlers is a leading UK operator of managed restaurants and pubs, with a high quality freehold estate and a portfolio of strong brands. Our strategy is to focus on the long-term growth of food and drink within the £80bn eating and drinking out market, with around three-quarters of our turnover coming from guests eating in our pubs and restaurants.

In FY 2015 we have achieved strong earnings growth. Against this backdrop, and reflecting confidence in future prospects for the business, we are recommending the payment of a final dividend of 5 pence per share. Going forward we expect the final dividend to represent two thirds of the full year payout.

Like-for-like sales started the year well but softened over the last quarter. The weather in the summer was generally poor, such that beer gardens did not see the benefit of any sustained period of sunshine. The market is becoming increasingly competitive, and we have seen this sales weakness persist into the early weeks of the current financial year. These are challenges which we are addressing.

Against this modest sales growth we have continued to generate value for our shareholders through our focus on costs and trading margins. We have delivered 9.5% growth in adjusted EPS, whilst continuing to de-lever the business, with net debt to adjusted EBITDA falling to 4.3 times.

FY 2015 also saw the completion of the EPOS systems projects, with new payment systems, tills, handheld devices and kitchen management equipment now rolled out across the estate. We have also continued the integration of the Orchid business, completing the closure of the head office and executing the conversion programme with encouraging results. Unconverted sites have now been integrated into our business within Heartland and are operating very much as business as usual.

THE EXTERNAL LANDSCAPE

The environment in which we operate remains competitive and dynamic. New supply into the market has been widely reported, consumer trends are evolving and becoming ever more demanding, and we are facing a dramatically changing cost landscape with the introduction of the National Living Wage next year. However, such challenges are not new to the industry or the group, and we will respond with energy and urgency to each.

Market supply

In recent years the UK eating and drinking out market has changed significantly. We have seen the number of restaurants increase, with net new openings of around 1,700 in the year to June, and close to 5,000 from 2012 to 2015. Over that period there have been more than 3,500 restaurant closures, and many pub closures, highlighting the ongoing structural change in the market and the competitive environment in which we are all operating.

The composition of the market has changed: independent restaurants and tenanted pubs have reduced, with growth coming from the branded sector and casual dining. Much of the new competition in the sector is 'fast-casual', with operators often single-brand focused, with a relatively small number of outlets and flexibility to keep offers fresh and up-to-date.

In several of our outlets we have seen the direct impact of competition opening in close proximity. More than half of our Harvester and Toby Carvery sites have been impacted by direct competitors opening in their immediate catchment, with several of those seeing multiple new openings nearby.

This clearly has an impact on short-term trading, and presents a challenge for us to meet. However, we recognise the strength of our brands and that these new entrants have the effect of growing the market over time, and present an opportunity for the strongest and best executed offers to grow.

Consumers

The changing competitive landscape is a direct response to a more demanding consumer. Expectations are rising on quality, environment, value and the range of offers available. Value continues to be important, although crucially this does not just equal low price. Consumers are now increasingly looking to explore and broaden their horizons for eating and drinking out. There is also a greater demand for personalisation – the mindset of having "what I want and when I want it" continues to strengthen.

Consumers' lifestyles are also changing. Alcohol consumption is reducing, and there is a broad trend towards health consciousness, although very much still retaining a willingness for the occasional indulgence in 'guilty pleasures'.

Finally, the impact of technology is ubiquitous. Consumers are increasingly digitally connected in all aspects of life, with implications for how we communicate with and serve them.

National Living Wage

The introduction of the National Living Wage is highly significant for our industry due to the relatively high proportion of employees paid at or close to the minimum wage, with earnings supported by gratuities. As a large employer, with more than 44,000 employees, we need to respond to what will be an impactful cost headwind. With consumers as focused as ever on value and service, we do not believe it will be possible for companies in our sector to simply 'control' their way out of the National Living Wage.

Our approach must therefore be rounded and must consider the long-term horizon: we recognise that it is a cost headwind but also that it potentially presents some consumers with higher incomes. We continue to consider productivity and efficiency opportunities, including technology and reviewing brand service models. We will also continue to look at opportunities to increase guest spend per head. This may mean tactical price opportunities to the extent we feel it is appropriate for certain brands, but also offering our guests the opportunity to trade-up the menu. Finally, we must respond to changes in consumer demand that arise, and therefore must continue to monitor the relevance of our offers. These processes will remain iterative throughout the coming years.

OUR PRIORITIES

We are addressing these challenges by continuing to work towards our strategic goals. In order to generate consistent and sustained shareholder value we have identified three priorities, focused on: building a more balanced business, instilling a more commercial culture, and increasing the pace of execution and innovation.

Build a more balanced business

Our well established brand portfolio is an area of great strength for the business, with national presence and enduring guest appeal. This is evident from high levels of sales and the strong returns on investment we have generated from converting Orchid sites to our brands. We need to continue to ensure that all of our brands have a clear and targeted proposition, and that they remain relevant to our guests in a dynamic market.

We must also ensure that we have the appropriate balance of brands, and number of sites within each brand, according to demographics and changing consumer needs. For example, we have Miller & Carter: a successful premium brand with only 36 sites but the potential for many more. We also have Harvester: a mid-market brand with more than 200 sites. The Harvester brand remains powerful, as evidenced by the strong sales seen in our Orchid conversions. However, it is susceptible to new competitors due to its size and positioning. Therefore we need to invest in protecting our more mature established brands and accelerating the expansion of our most successful smaller brands, with a view to having a better balanced business in the longer term to deliver more predictable and sustainable shareholder returns.

Instil a more commercial culture

We will instil a truly commercial edge to our business, with a focus on driving profitable sales day in and day out. We are not looking to generate higher like-for-like sales at the expense of profitability, and therefore our approach to driving sales must vary according to our different brands and their various life-cycle stages, finding the right balance in each case.

We have also worked hard on getting back to basics with management targets and performance data, ensuring that our balanced scorecard approach is focused on managing our P&L, and continuing to convert sales to profit.

We have installed a sales function to apply a structured approach to maximising opportunities from some of the under-utilised space we have at our disposal.

We recognise the need to increase the pace at which we operate and the speed with which we react in a dynamic marketplace. Simplicity throughout our business is vital. We see the house manager role as critical in our organisation: they need to be leaders, taking ownership for every aspect of their business and every aspect of the customer journey. Our area managers are the front line support to the house managers, and as a wider business we need to be set up to focus fully on supporting these key roles. We are therefore simplifying the business and focusing on clear metrics, to allow our area managers the time to be in their businesses, focusing on the standards of the operation and on truly delighting our guests.

We also recognise the need to capitalise on our team of outstanding people, by ensuring we are a company that the best people want to work for. We need to identify those with the most talent and highest potential, and ensure they are offered the right career plans and development paths to remain with the business and take it forward in the long term.

We see applying these basic principles as the key to unlocking the potential of the high-quality team we have at our disposal, and to creating a results-orientated culture throughout the business.

Increase the pace of execution and innovation

We need to approach innovation with urgency and from all angles: new product development, the use of technology to improve efficiency, and digital innovation to drive the best engagement with our guests.

Given the competitive environment, we will increase the level of trial activity that we undertake, and accelerate the rollout of those which are successful. This will help us to improve the return from our existing assets and to exploit further market opportunities through new product development. In the last year we have invested in our Heartland estate with two new concepts. Sizzling Pizza & Carvery provides an innovative solution to move our Crown Carveries business forward, and Sizzling Pub & Grill is an extension of the existing Sizzling Pubs offer. A small number of these formats have been trialled, with results exceeding expectations so far, and we are planning to accelerate the roll-out.

Our guests are increasingly digitally connected in all aspects of their life. This provides a significant opportunity for us, to communicate with and reach our guests in a variety of new ways, to engage with them with new offers, and to get a deeper understanding of consumer preferences to further drive insight. Our focus on innovation is critical for us to maintain our competitive position in a rapidly evolving market.

OUTLOOK

Sales in the first eight weeks of the year have been soft, with total sales down by 1.3% and like-for-like sales down by 1.6%, reflecting an increasingly competitive market.

As we face these challenges we have a clear set of priorities going forward. We are continuing with our strategy whilst retaining a flexible approach across our extensive portfolio of pubs and restaurants, seeking sustained and balanced profit growth rather than purely the pursuit of sales. Through this we are confident we can deliver strong shareholder returns.

FINANCIAL REVIEW

On a statutory basis, profit before tax for the period was £126m (2014 £123m), on sales of £2,101m (2014 £1,970m).

The Group Income Statement discloses adjusted profit and earnings per share information that excludes exceptional items to allow a better understanding of the underlying trading of the Group. Adjusted earnings per share increased by 9.5% in 2015 to 35.7 pence.

At the end of the financial year, the total estate comprised 1,779 managed businesses and 55 franchised 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 increased by 6.6% to £2,101m, as a result of growth in like-for-like sales, the full-year contribution of the 173 sites acquired from Orchid during the prior year, and the contribution from other, single site, acquisitions.

Total like-for-like sales increased by 0.8%, with higher food sales of 1.9% but lower drink sales of -0.4%. Food sales growth was driven by increased volumes of 0.8% and average spend per head growth of 1.1%. Drink sales, by contrast, resulted from average spend per head growth of 2.4% offset by volume decline of 2.8%.

Like-for-like sales growth:	**Week 1 – 32 FY 2015**	**Week 33 – 52 FY 2015**	**Week 1 – 52 FY 2015**
Total	1.4%	0.0%	0.8%
Food	2.5%	1.0%	1.9%
Drink	0.3%	(1.4%)	(0.4%)

Operating margins

Adjusted operating margins for the year were 15.6%, 0.3 ppts below 2014. In the first half margins were behind last year by 0.8 ppts, with the Orchid head office remaining open and food sales across the business being driven by volume rather than spend per head.

Second half margins improved to 0.3 ppts higher than last year. A key factor in this was the closure of the Orchid head office as planned in April 2015, generating annual cost savings of £6m. The second half margin also benefited from food sales growth being driven by increased guest spend per head.

Adjusted operating profit for the year was £328m, 4.8% higher than 2014.

Internal rent

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

	Operating		**Property**		**Total (before exceptional items)**	
	£m	**vs LY %**	**£m**	**vs LY %**	**£m**	**vs LY %**
Revenue	2,101	6.6%	-	-	2,101	6.6%
EBITDAR	493	3.8%	-	-	493	3.8%
External Rent	(54)	(1.9%)	-	-	(54)	(1.9%)
Internal Rent	(220)	(9.5%)	220	9.5%	0	-
EBITDA	219	(0.9%)	220	9.5%	439	4.0%
EBITDA %	10.4%	(0.8 ppts)	-	-	20.9%	(0.5 ppts)

Exceptional items

Exceptional items comprise two items: a £65m charge relating to the net movement in the property portfolio (2014 £37m); and a £7m net profit from the disposal of properties, including the release of a £5m accrual relating to prior period disposals.

Interest

Net finance costs of £144m were £3m higher than the prior year. The net pensions finance charge of £15m was £5m higher than in 2014, offset by a reduction in the annual interest charge on the Group's securitised borrowings.

For FY16 we expect the pensions finance charge to reduce slightly to £12m.

Taxation

The tax charge of £23m in the year represents an effective rate of 18.3% (2014 24.4%). The reduction in the effective rate is due to a lower standard rate of UK corporation tax plus the impact of adjustments from prior periods.

Earnings per share

Adjusted earnings per share were 35.7p, 9.5% higher than last year. After the exceptional items described above, basic earnings per share were 25.0p (2014 22.6p).

Cash flow and net debt

The cash flow statement below excludes £120m transferred from cash to other cash deposits (2014 £25m) and, in the prior year, £147m drawn down from a liquidity facility under the terms of the securitisation.

	FY 2015 £m	FY 2014 £m
EBITDA before exceptional items	439	422
Working capital movement / non-cash items	48	18
Pension deficit contributions	(86)	(49)
Cash flow from operations before exceptional items	**401**	**391**
Maintenance and infrastructure capex	(116)	(120)
Interest	(127)	(135)
Tax	(25)	(34)
Free Cash Flow before exceptional items	**133**	**102**
Expansionary capex	(46)	(42)
Orchid acquisition	(1)	(258)
Disposals and other	9	4
Operating exceptional	(6)	(5)
Net cash flow	**89**	**(199)**
Mandatory bond amortisation	(61)	(58)
Net cash flow after bond amortisation	**28**	**(257)**

The business generated £439m of EBITDA in the year. Pension deficit contributions of £86m included a one-off contribution of £40m agreed as part of the last triennial valuation. After maintenance capital, interest and tax, £133m of free cash before exceptional items was generated by the business.

Net debt was £1,870m, representing 4.3 times annualised EBITDA (2014 4.5 times). Net debt within the securitisation was £1,895m and net cash held outside the securitisation was £25m.

Capital expenditure

Total capital expenditure was £162m, comprising £103m (2014 £94m) spent on amenity in the Group's restaurants and pubs, £13m on infrastructure projects (2014 £26m), and £46m on conversions and new site openings (2014 £42m).

The reduction in infrastructure projects was driven by IT expenditure, with the completion of several key projects in the year, notably the roll out of pub EPOS systems.

The blended EBITDA return on expansionary capital invested since FY 2012 was 18% (2014 16%). Given the varying nature of freehold acquisitions, leasehold acquisitions and conversions, the business reviews returns by category:

	2015 Investment[a]	**2015 No. of sites**	**2012 – 2015 EBITDA ROI[b]**
Freehold acquisitions	£10m	4	14%
Leasehold acquisitions	£10m	10	18%
Conversions	£23m	51	22%
Total expansionary projects	£43m	65	18%

NOTES:
a: Capital expenditure relating to projects completed and opened during the period
b: Orchid sites included post-conversion

Included in the conversions above are 41 Orchid sites converted to our brands and formats. A further 10 have been completed since year end. The Orchid sites which have not been converted are now part of our Heartland estate. The converted Orchid sites continue to trade well.

Property

A red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuers, CBRE. In addition, the Group has conducted an impairment review on short leasehold and unlicensed properties. The overall portfolio value has fallen by £40m (2014 increase of £26m) reflecting a £65m exceptional charge in the income statement and a £25m 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 (March 2010 valuation: £400m). The discounted value of the minimum funding requirement agreed as part of the revised schedule of contributions is recognised in the balance sheet at £350m (FY 2014 £425m).

Dividends

With regard to recent performance and confidence in future prospects for the business, together with the agreement reached with the pension trustees as a part of the 2013 triennial settlement, the directors recommend the payment of a dividend of 5 pence per share to shareholders on the register as at 4th December 2015, to be paid on 9th February 2016.

This payment represents the final element only of a total annual payout that is anticipated to be split one third at the interim stage and two thirds at final. We intend to adopt a progressive dividend policy.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 19 January 2016.

Responsibility statement

We confirm to the best of our knowledge:

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

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

This responsibility statement was approved by the Board of Directors on 23 November 2015 and is signed on its behalf by Tim Jones, Finance Director.

Group income statement

For the 52 weeks ended 26 September 2015

	2015 52 weeks			2014 52 weeks		
	Before exceptional items £m	Exceptional items[a] £m	Total £m	Before exceptional items £m	Exceptional items[a] £m	Total £m
Revenue	2,101	-	2,101	1,970	-	1,970
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	(1,662)	-	(1,662)	(1,548)	(12)	(1,560)
Net profit arising on property disposals	-	7	7	-	-	-
EBITDA[b]	439	7	446	422	(12)	410
Depreciation, amortisation and movements in the valuation of the property portfolio	(111)	(65)	(176)	(109)	(37)	(146)
Operating profit/(loss)	328	(58)	270	313	(49)	264
Finance costs	(130)	-	(130)	(132)	-	(132)
Finance revenue	1	-	1	1	-	1
Net pensions finance charge	(15)	-	(15)	(10)	-	(10)
Profit/(loss) before tax	184	(58)	126	172	(49)	123
Tax (expense)/credit	(37)	14	(23)	(38)	8	(30)
Profit/(loss) for the period	147	(44)	103	134	(41)	93
Earnings per ordinary share						
Basic	35.7p		25.0p	32.6p		22.6p
Diluted	35.5p		24.9p	32.4p		22.5p

a. Exceptional 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 26 September 2015

	2015 52 weeks £m	2014 52 weeks £m
Profit for the period	103	93
Items that will not be reclassified subsequently to profit or loss:		
Unrealised gain on revaluation of the property portfolio	25	62
Remeasurement of pension liability	6	(214)
Tax relating to items not reclassified	(9)	33
	22	(119)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1)	(1)
Cash flow hedges:		
- Losses arising during the period	(86)	(59)
- Reclassification adjustments for items included in profit or loss	31	48
Tax relating to items that may be reclassified	11	2
	(45)	(10)
Other comprehensive loss after tax	(23)	(129)
Total comprehensive profit/(loss) for the period	80	(36)

Group balance sheet
26 September 2015

	2015 £m	2014 restated* £m
Assets		
Goodwill and other intangible assets	10	9
Property, plant and equipment	4,242	4,237
Lease premiums	2	1
Deferred tax asset	156	161
Derivative financial instruments	19	5
Total non-current assets	4,429	4,413
Inventories	24	27
Trade and other receivables	46	60
Other cash deposits	120	-
Cash and cash equivalents	163	255
Total current assets	353	342
Total assets	4,782	4,755
Liabilities		
Pension liabilities	(46)	(45)
Trade and other payables	(317)	(299)
Current tax liabilities	(15)	(21)
Borrowings	(214)	(208)
Derivative financial instruments	(43)	(45)
Total current liabilities	(635)	(618)
Pension liabilities	(304)	(380)
Borrowings	(1,960)	(2,012)
Derivative financial instruments	(253)	(196)
Deferred tax liabilities	(349)	(352)
Long-term provisions	(10)	(12)
Total non-current liabilities	(2,876)	(2,952)
Total liabilities	(3,511)	(3,570)
Net assets	1,271	1,185
Equity		
Called up share capital	35	35
Share premium account	26	24
Capital redemption reserve	3	3
Revaluation reserve	938	918
Own shares held	(1)	(4)
Hedging reserve	(240)	(196)
Translation reserve	10	11
Retained earnings	500	394
Total equity	1,271	1,185

*Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 8).

Group statement of changes in equity

For the 52 weeks ended 26 September 2015

	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 28 September 2013	35	23	3	869	(4)	(187)	12	468	1,219
Profit for the period	-	-	-	-	-	-	-	93	93
Other comprehensive income/(expense)	-	-	-	50	-	(9)	(1)	(169)	(129)
Total comprehensive income/(expense)	-	-	-	50	-	(9)	(1)	(76)	(36)
Share capital issued	-	1	-	-	-	-	-	-	1
Purchase of own shares	-	-	-	-	(2)	-	-	-	(2)
Release of own shares	-	-	-	-	2	-	-	(1)	1
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
Disposal of properties	-	-	-	(1)	-	-	-	1	-
At 27 September 2014	35	24	3	918	(4)	(196)	11	394	1,185
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

Group cash flow statement

For the 52 weeks ended 26 September 2015

	2015 52 weeks £m	2014 52 weeks £m
Cash flow from operations		
Operating profit	270	264
Add back: operating exceptional items	58	49
Operating profit before exceptional items	328	313
Add back:		
Depreciation of property, plant and equipment	109	108
Amortisation of intangibles	2	1
Cost charged in respect of share-based payments	2	2
Administrative pension costs	2	2
Operating cash flow before exceptional items, movements in working capital and additional pension contributions	443	426
Decrease/(increase) in inventories	3	(1)
Decrease in trade and other receivables	22	15
Increase/(decrease) in trade and other payables	21	(3)
(Decrease)/increase in provisions	(2)	3
Additional pension contributions	(86)	(49)
Cash flow from operations before exceptional items	401	391
Cash flow from operating exceptional items	(6)	(5)
Interest paid	(129)	(137)
Interest received	2	2
Tax paid	(25)	(34)
Net cash from operating activities	243	217
Investing activities		
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	(1)	(269)
Cash acquired on acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	-	11
Purchases of property, plant and equipment	(157)	(156)
Purchases of intangible assets	(3)	(6)
Payment of lease premium	(2)	-
Proceeds from sale of property, plant and equipment	6	4
Transfers (to)/from other cash deposits	(120)	25
Net cash used in investing activities	(277)	(391)
Financing activities		
Issue of ordinary share capital	2	1
Purchase of own shares	-	(2)
Proceeds on release of own shares	1	1
Repayment of principal in respect of securitised debt	(61)	(58)
Drawings under liquidity facility	-	147
Net cash (used in)/from financing activities	(58)	89
Net decrease in cash and cash equivalents	(92)	(85)
Cash and cash equivalents at the beginning of the period	255	340
Cash and cash equivalents at the end of the period	163	255

Notes to the preliminary financial statements

For the 52 weeks ended 26 September 2015

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 26 September 2015. The comparative period is for the 52 week period ended 27 September 2014. The respective balance sheets have been drawn up as at 26 September 2015 and 27 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.

Restatement

On 15 June 2014 the Group acquired all of the issued share capital in Orchid Pubs & Dining Limited and Midco 1 Limited. At 27 September 2014, a provisional fair valuation of the identifiable assets and liabilities was recorded.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of the deferred tax asset acquired and the value of land and buildings. In addition, deferred consideration outstanding at 27 September 2014 has also been finalised. The result of these changes reduces the provisional goodwill from £9m to £nil.

Further details are provided in note 8.

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 = €1.37 (2014 £1 = €1.22), 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 = €1.36 (2014 £1 = €1.28) and £1 = $1.52 (2014 £1 = $1.62) 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 exceptional items (operating profit pre-exceptionals) 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. The internal rent charge is eliminated at the total Group level.

	Retail operating business		Property business		Total	
	2015 52 weeks £m	2014 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m	2015 52 weeks £m	2014 52 weeks £m
Revenue	2,101[a]	1,970[a]	-	-	2,101	1,970
EBITDA pre-exceptionals	219	221	220[b]	201[b]	439	422
Operating profit pre-exceptionals	121	127	207	186	328	313
Exceptional items (note 3)					(58)	(49)
Operating profit					270	264
Net finance costs					(144)	(141)
Profit before tax					126	123
Tax expense					(23)	(30)
Profit for the period					103	93

a. Revenue includes other income of £6m (2014 £7m) in respect of franchise operations and £6m (2014 £nil) in respect of sales of development properties.

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

3. Exceptional items

	Notes	2015 52 weeks £m	2014 52 weeks £m
Operating exceptional items			
Acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited	a	-	(12)
Net profit arising on property disposals	b	7	-
Movement in the valuation of the property portfolio:			
- Impairment arising from the revaluation		(54)	(25)
- Other impairment	c	(11)	(11)
- Impairment of lease premium		-	(1)
Net movement in the valuation of the property portfolio		(65)	(37)
Total exceptional items before tax		(58)	(49)
Tax credit relating to above items		14	8
Total exceptional items after tax		(44)	(41)

a. Relates to integration costs and legal and professional fees incurred in the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited on 15 June 2014.
b. Includes the release of a £5m accrual for costs in relation to the disposal of properties in prior periods.
c. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amount.

4. Finance costs and revenue

	2015 52 weeks £m	2014 52 weeks £m
Finance costs		
Interest on securitised and other debt	(130)	(132)
Finance revenue		
Interest receivable – cash	1	1
Net pensions finance charge (note 10)	(15)	(10)

5. Taxation

Taxation - income statement

	2015 52 weeks £m	2014 52 weeks £m
Current tax:		
- UK corporation tax	(21)	(29)
- Amounts over/(under) provided in prior periods	3	(9)
Total current tax charge	(18)	(38)
Deferred tax:		
- Origination and reversal of temporary differences	(6)	1
- Adjustments in respect of prior periods - tax losses	4	-
- Adjustments in respect of prior periods - other	(3)	7
Total deferred tax (charge)/credit	(5)	8
Total tax charged in the income statement	(23)	(30)
Further analysed as tax relating to:		
Profit before tax and exceptional items	(37)	(38)
Exceptional items	14	8
	(23)	(30)

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 exceptional 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 26 September 2015:			
Profit/EPS	103	25.0p	24.9p
Exceptional items, net of tax	44	10.7p	10.6p
Adjusted profit/EPS	147	35.7p	35.5p
52 weeks ended 27 September 2014:			
Profit/EPS	93	22.6p	22.5p
Exceptional items, net of tax	41	10.0p	9.9p
Adjusted profit/EPS	134	32.6p	32.4p

6. Earnings per share (continued)

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

	2015 52 weeks m	2014 52 weeks m
For basic EPS calculations	412	411
Effect of dilutive potential ordinary shares:		
- Contingently issuable shares	1	1
- Other share options	1	1
For diluted EPS calculations	414	413

At 26 September 2015, 379,182 (2014 816,685) 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

	2015 26 September £m	2014 27 September restated* £m
At beginning of period	4,237	3,895
Acquired through business combinations (note 8)	-	274
Additions	158	157
Revaluation	(40)	26
Disposals	(5)	(7)
Depreciation provided during the period	(109)	(108)
Exchange differences	1	-
At end of period	4,242	4,237

*Restated for final fair valuation on the acquisition of Orchid Pubs & Dining Limited and Midco 1 Limited (see note 8).

Revaluation/impairment
The freehold and long leasehold properties have been valued at market value, as at 26 September 2015 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% (2014 8%).

7. Property, plant and equipment (continued)

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

	2015 52 weeks £m	2014 52 weeks £m
Income statement		
Revaluation loss charged as an impairment	(90)	(75)
Reversal of past impairments	36	50
Total impairment arising from the revaluation	(54)	(25)
Impairment of short leasehold and unlicensed properties	(11)	(11)
	(65)	(36)
Revaluation reserve		
Unrealised revaluation surplus	141	169
Reversal of past revaluation surplus	(116)	(107)
	25	62
Net (decrease)/increase in property, plant and equipment	(40)	26

8. Acquisitions

On 15 June 2014 the Group acquired all of the issued share capital in Orchid Pubs & Dining Limited and Midco 1 Limited.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of the deferred tax asset acquired and the value of land and buildings. In addition, deferred consideration outstanding at 27 September 2014 has also been finalised. The result of these changes reduces the provisional goodwill from £9m to £nil.

The adjustments to the provisional amounts recognised during the measurement period are as follows:

	As reported at 27 September 2014 £m	Adjustments to provisional values £m	Restated £m
Land and buildings	270	(5)	265
Fixtures, fittings and equipment	9	-	9
Inventory	2	-	2
Cash and cash equivalents	11	-	11
Trade and other receivables	5	-	5
Trade and other payables	(26)	-	(26)
Deferred tax asset	-	12	12
Deferred tax liability	(9)	1	(8)
Net identifiable assets	262	8	270
Goodwill	9	(9)	-
Total cash consideration	271	(1)	270
Net cash outflow arising on acquisition:			
Cash consideration	271	(1)	270
Less: deferred consideration	(2)	1	(1)
Less: cash and cash equivalents acquired	(11)	-	(11)
	258	-	258

8. Acquisitions (continued)

As a result of the acquisition accounting being finalised, the Group has restated the comparative amounts in the balance sheet as follows:

	As reported at 27 September 2014 £m	Adjustments to provisional values £m	Restated £m
Goodwill and other intangible assets	18	(9)	9
Property, plant and equipment	4,242	(5)	4,237
Trade and other payables	(300)	1	(299)
Deferred tax asset	149	12	161
Deferred tax liability	(353)	1	(352)

9. Net debt

Net debt	2015 £m	2014 £m
Cash and cash equivalents	163	255
Other cash deposits	120	-
Securitised debt	(2,027)	(2,073)
Liquidity facility	(147)	(147)
Derivatives hedging balance sheet debt[a]	21	7
	(1,870)	(1,958)

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.

Movement in net debt	2015 52 weeks £m	2014 52 weeks £m
Net decrease cash and cash equivalents	(92)	(85)
Add back cash flows in respect of other components of net debt:		
Transfers to/(from) other cash deposits	120	(25)
Repayment of principal in respect of securitised debt	61	58
Drawings under liquidity facility	-	(147)
Decrease/(increase) in net debt arising from cash flows	89	(199)
Movement in capitalised debt issue costs net of accrued interest	(1)	-
Decrease/(increase) in net debt	88	(199)
Opening net debt	(1,958)	(1,759)
Closing net debt	(1,870)	(1,958)

10. 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	2015 52 weeks £m	2014 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	(6)	(4)
Additional pensions finance charge due to minimum funding	(9)	(6)
Net finance charge in respect of pensions	(15)	(10)
Total charge	(24)	(19)

Group statement of comprehensive income	2015 52 weeks £m	2014 52 weeks £m
Return on scheme assets and effects of changes in assumptions	13	(119)
Movement in pension liability recognised due to minimum funding	(7)	(95)
Remeasurement of pension liability	6	(214)

Group balance sheet	2015 £m	2014 £m
Fair value of scheme assets	2,010	1,865
Present value of scheme liabilities	(2,112)	(2,058)
Actuarial deficit in the schemes	(102)	(193)
Additional liability recognised due to minimum funding	(248)	(232)
Total pension liability*	(350)	(425)
Associated deferred tax asset	70	85

* The total pension liability of £350m (2014 £425m) is represented by a £46m current liability (2014 £45m) and a £304m non-current liability (2014 £380m).

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

	Scheme assets	
	2015 £m	2014 £m
Fair value of scheme assets at beginning of period	1,865	1,732
Interest income	71	76
Remeasurement gain:		
- Return on scheme assets (excluding amounts included in net finance charge)	63	80
Employer contributions	86	49
Benefits paid	(73)	(70)
Administration costs	(2)	(2)
At end of period	2,010	1,865

10. Pensions (continued)

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

	Defined benefit obligation	
	2015	2014
	£m	£m
Present value of defined benefit obligation at beginning of period	(2,058)	(1,849)
Interest cost	(77)	(80)
Benefits paid	73	70
Remeasurement losses:		
- Effect of changes in demographic assumptions	(12)	(45)
- Effect of changes in financial assumptions	(38)	(154)
At end of period[a]	(2,112)	(2,058)

a. The defined benefit obligation comprises £25m (2014 £24m) relating to the MABETUS unfunded plan and £2,087m (2014 £2,034m) relating to the funded plans.

11. Dividends

No dividends have been declared or paid in the period (2014 £nil). 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 9 February 2016 to shareholders on the register at close of business on 4 December 2015.

12. Financial Statements

The preliminary statement of results was approved by the Board of Directors on 23 November 2015. It does not constitute the Group's statutory financial statements for the 52 weeks ended 26 September 2015 or for the 52 weeks ended 27 September 2014. The financial information is derived from the statutory financial statements of the Group for the 52 weeks ended 26 September 2015.

Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 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.