# Chairman's statement

*"It has been a pleasure to see our businesses and teams flourishing again and delivering memorable moments to our guests whilst bringing people and communities together."*

*Bob Ivell*
*Chairman*

## This year the strength of our teams has been demonstrated through the successful rebuilding of trade after a challenging couple of years.

There is a sense across the business that momentum is returning and that despite the new challenges we face, in the form of the current inflationary environment, our business has the financial strength and the management expertise required to adapt and succeed. It is encouraging to see our Ignite programme, which has delivered consistently in the past, back in full flow, and the resumption of our proven capital programme. Although the challenges facing the industry remain, I am confident in the underlying strength of our organisation.

### Our purpose

During the period, our purpose to be the host of life's memorable moments, bringing people and communities together through great experiences, has continued to be highly important. We remain at the centre of our communities as a place for our guests to meet and socialise.

To support our purpose, we have provided further support at a corporate level through partnerships with organisations such as Shelter and Social Bite, and at a brand level with charities such as the RNLI and the Royal British Legion. This is in addition to the countless initiatives taken to support the wellbeing of our people and communities at an outlet level.

In this report, we bring to life how we make our purpose live in the business, to the benefit of all stakeholders, through a series of case studies in the Purpose in Action section on pages 04 to 09 of this report.

### Our culture

Our people are our greatest asset, and this has never been more evident than during the last few years. They have responded positively to all the challenges that they have encountered, both personally and professionally, and I would like to thank all of them for their tenacity, hard work and dedication to Mitchells & Butlers and its guests.

The Board and the Executive Committee, who lead the organisation, have also responded magnificently, dealing with the complex operational and financial challenges we have faced.

### Our values

The values we hold ourselves accountable to across the business are Passion, Respect, Innovation, Drive and Engagement. We believe that these foster the culture and environment needed to enable our people to work collectively, and in union with our stakeholders, to support our purpose.

### Our Board

During the year, the Board continued to work together to deal with the challenges posed by operating a multi-site business in the face of significant inflationary cost pressures.

Susan Murray, who joined the Board in March 2019, and was the Senior Independent Director, stood down from the Board at the AGM in 2022, with Jane Moriarty, who assumed the role of chair of the Audit Committee in July 2021, accepting the Board's invitation to become the Senior Independent Director. I would like to thank Susan, on behalf of the Board, for her contribution.

Amanda Brown was appointed as a Non-Executive Director in July 2022, joining the Audit, Remuneration and Nomination Committees as well as becoming Chair of the Remuneration Committee. Her previous role was as Chief Human Resources Officer of Hiscox Limited, having previously held senior executive roles with Whitbread Group PLC, PepsiCo, Inc and Mars, Inc. She is also a Non-Executive Director and Chair of the Remuneration Committee of Micro Focus International PLC.

We have a group of Non-Executive Directors who bring a balance of knowledge and expertise to the Board.

Their biographies can be found on pages 62 and 63.

Greg McMahon, Company Secretary and General Counsel, stepped down in September 2022 after more than nine years in the position. I want to thank Greg and wish him well in his retirement. We welcome Andrew Freeman, formerly of PPHE Hotel Group, who joins as Greg's successor, we look forward to working with him.

Further detail on the operation of the Board can be found in the Governance section which starts on page 59.

My focus will continue to be on ensuring that we have a strong team in place with the right balance of technical, financial and functional skills and expertise to guide our development, as well as the appropriate governance structure to ensure that we safeguard the business for all stakeholders.

**Bob Ivell**
Chairman
Mitchells & Butlers plc

**Chairman's introduction to Governance**
*Go to page 60*

*"Although the challenges facing the industry remain, I am confident in the underlying strength of our organisation."*

# A brand for every occasion

*At Mitchells & Butlers, we have a diverse portfolio of brands and formats offering experiences to suit a range of occasions.*

*From a family celebration meal at Miller & Carter to a few drinks with a sharing plate after work, our teams deliver all manner of memorable occasions.*

*Our dedicated teams are led by experienced hospitality professionals and strive to exceed our guests' expectations, as shown by our impressive guest feedback scores.*

Castle

Nicholson's

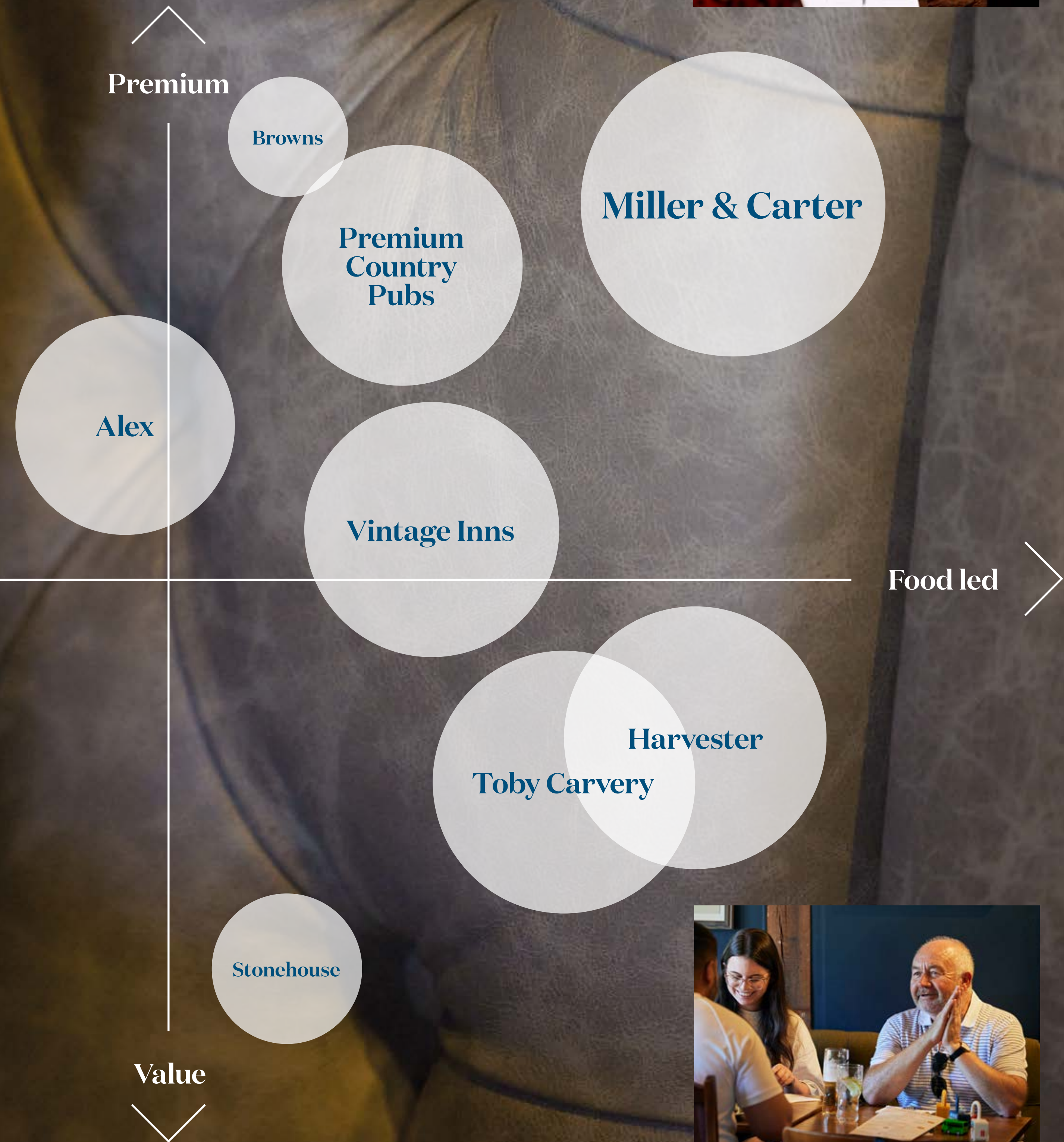
All Bar One

Drink led

Ember Inns

High Street sites

Suburban sites

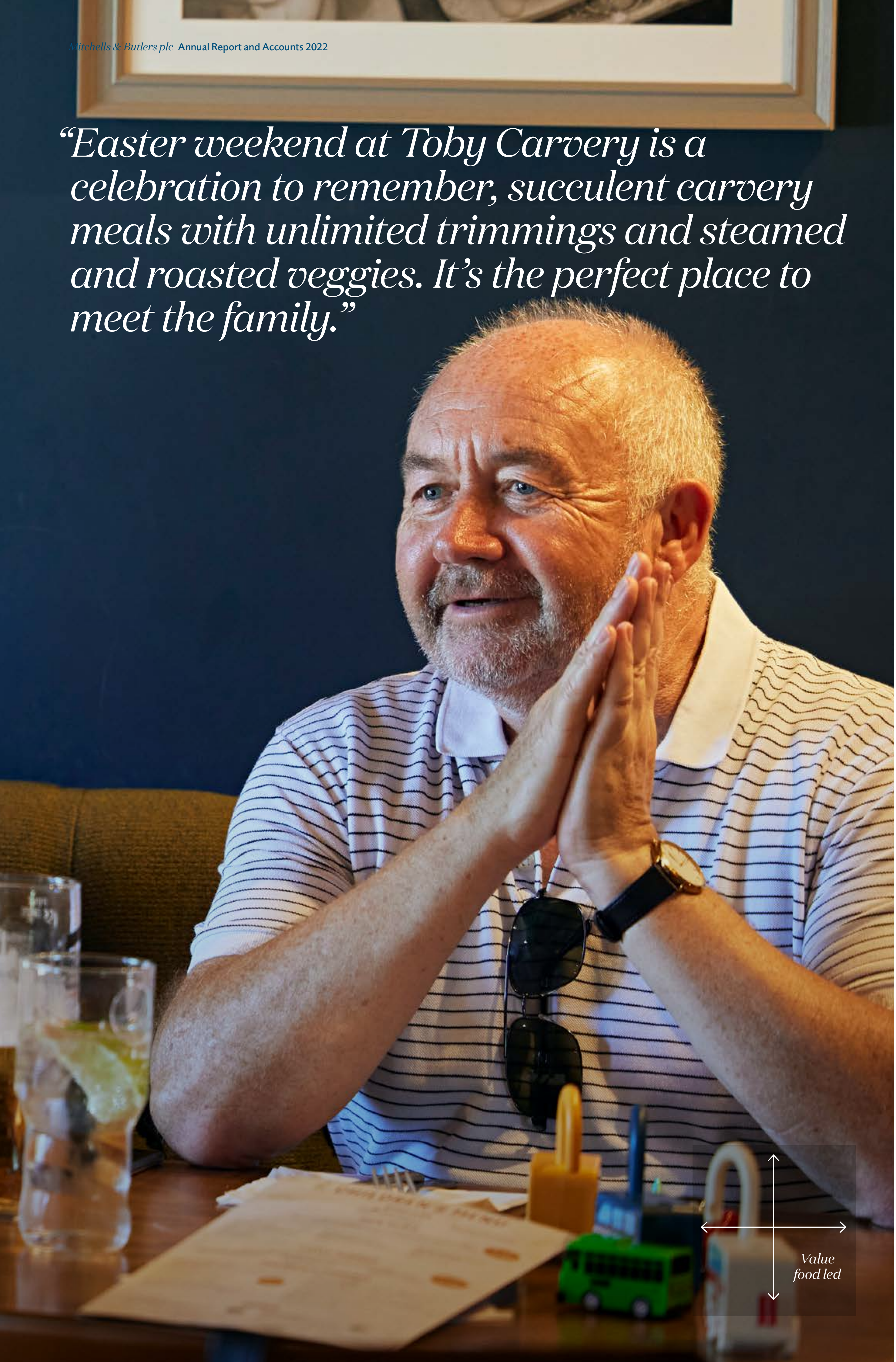

Premium
Browns
Premium Country Pubs
Miller & Carter
Alex
Vintage Inns
Food led
Harvester
Toby Carvery
Stonehouse
Value


*"A birthday wouldn't be the same without fizz and nibbles with my mates at All Bar One after work."*

*"Mum loves the tender fillet steak and sticky toffee pudding at our local Miller & Carter. It's a delicious treat without breaking the bank."*


*"Friday night drinks in the sunshine at our local on the high street, what a great way to celebrate the start of the summer."*

*"Easter weekend at Toby Carvery is a celebration to remember, succulent carvery meals with unlimited trimmings and steamed and roasted veggies. It's the perfect place to meet the family."*



# Chief Executive's business review

*"This year the talent, resilience and commitment of our people has again been proven as we have successfully rebuilt trade after a demanding couple of years."*

*Phil Urban*
*Chief Executive*

We have been encouraged by the continued recovery in sales this year, with our like-for-like sales[a] performance, accounting for the impact of VAT changes, improving each quarter to finish with 1.5% growth in the final quarter.

We are mindful of the acute pressures on the UK consumer over the coming months but we remain focused on our purpose to be the host of life's memorable moments.

This performance has been in the context of a highly challenging trading environment. Over December and January FY 2022, there was a marked reduction in trade across the sector due to the emergence of the new Covid variant, Omicron, and the caution that brought to guests. February saw the beginning of the conflict in Ukraine which has had significant impacts on cost inputs and supply chains globally. Over the summer, we had extreme heat weather events and widespread industrial action, both of which have negatively impacted trade.

This year the talent, resilience and commitment of our people has again been proven as we have successfully rebuilt trade after a demanding couple of years. I want to thank all our teams as, together, they rose to the challenge and redoubled their efforts and everyone should feel proud about what they have collectively delivered.

The approach we have taken with our Ignite programme of work recognises that there is no silver bullet to growing the business, but instead it is the incremental gains made across several fronts that can bring success. Ignite is a programme made up of a wide range of management improvement initiatives. It has a number of different workstreams, each led by one of our Executive Directors and a functional expert.

A project management office and governance routine ensures that we all remain focused on extracting as much value as we can from the Ignite programme.

We remain focused on executing our capital programme ambition of a seven-year investment cycle, which has been proven to deliver value by improving the competitive position of our pubs and restaurants. Our ability to enhance amenity and premiumise our offers will enable us to win market share together with our well invested estate and the best people in the industry.

The trading environment remains challenging and cost headwinds continue to put significant pressure on the sector. However, we have proven over recent years the ability to adapt and build momentum with both our Ignite and capital programmes. Demand for our well-loved brands has been demonstrated by an encouraging return to like-for-like sales[a] growth as we look to continue our recovery as a market leading operator.

Further detail on our strategic priorities can be found on pages 26 and 27.

a. The Directors use a number of alternative performance measures ('APMs') that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 177 to 179 of this report.

## Business review

Total sales across the period were £2,208m reflecting a 1.3% decline on FY 2019, driven mainly by temporary Covid-related sales reductions and closures in the first part of the year plus site disposals since FY 2019. Despite this, adjusted operating profit[a] of £240m reflects a strong return to profitability. Excluding the c. £70m increase in utility costs, profits would have been close to pre-Covid-19 levels, despite the impact during the year of the Omicron variant and inflationary cost pressures.

We made a good start to FY 2022 with positive like-for-like sales[a] growth over the first eight weeks. This encouraging performance continued until late November when concerns first arose around the emergence of the new Covid variant, Omicron, which led to calls for further caution in socialising and resulted in a clear downturn in activity across the sector. As a result, over the seven weeks to the end of the first quarter, like-for-like sales[a] declined with the adverse impact of Omicron being particularly felt over the important festive season.

As guest confidence returned early in the new year, our business regained momentum, supported by the benefits from a new set of Ignite initiatives, with strong like-for-like sales[a] growth in the second quarter. Over the first half of the year, food sales continued to outperform drink, with food like-for-like sales[a] growth of 6.9%, helped by the reduced rate of VAT. At this point, we started to observe an encouraging trend of recovery in city sites, as people began to return to offices and city centre destinations, albeit trading in some areas of London, such as The City, remained relatively subdued, particularly at the end of the week. Drink sales continued to be challenging across the sector and drink like-for-like sales[a] declined by 6.9% in the first half, with suburban locations seeing the largest declines.

VAT reverted from 12.5% to 20% on 1 April 2022 which contributed to a softening of sales in the third quarter, alongside industrial action and very hot weather, resulting in only modest like-for-like sales[a] growth across the full quarter, with food continuing to be the main driver. Trading improved in the fourth quarter, despite an additional period of extreme heat as well as further rail strikes. Sales over the August bank holiday were encouraging, with strong like-for-like[a] growth over the three-day weekend, before returning to levels consistent with the quarter as a whole. Growth continued to be driven by food sales with the strongest performances in our premium, food-led brands.

The unprecedented challenges the industry has faced have had an unavoidable impact on market supply with a 9.9% decline in pubs and restaurants since March 2020 (CGA Outlet Index October 22). Food-led venues have been hit harder by closures: the number of outlets reducing by 12.0%, with independent and tenanted businesses making up 82% of net closures. Given our strong estate and portfolio of brands, we believe that we are well placed to benefit from these changes in the competitive landscape.

## Our strategic priorities

The fundamental strengths of our business provide a platform for the future. We have an 83% freehold and long leasehold estate, with recognised and diversified brands across a broad range of consumer occasions, demographics and locations, and an experienced and proven management team with the focus to build on the momentum previously gained. We remain focused on the strategic pillars which formed the foundations of our strong performance before the pandemic, and which are equally relevant to the current challenging trading environment.

We continue to provide value for money to our guests, working hard to protect entry level items where we can and introducing more premium items to provide trade-up options. The benefit of our size and scale, our ability to continue to invest in our capital programme and the mitigation generated through Ignite allow us to use price tactically and to remain competitive.

Our Ignite programme of work remains at the core of our long-term value creation plans and we are working on over 40 fresh initiatives, alongside a large number already implemented in the business. We are currently focusing particularly on initiatives which enhance efficiency and productivity, helping to offset cost headwinds, through enhancements such as improved labour scheduling, cost mitigating procurement strategies and energy consumption reduction. The auto-scheduling project aims to assist our site managers by producing automatically generated team member rosters to help ensure we have the right people on shift at the right time, to drive sales at peak times and reduce costs at quieter times. We have a number of energy reduction projects underway including the installation of voltage optimisers that reduce electricity consumption, chemical additives that have been added to our heating systems to reduce gas consumption, trial of internet-connected control devices to lower electricity and gas consumption and we have trained energy ambassadors across the country to complete site energy audits, all further reducing consumption in our sites. In addition, we are working with our waste oil collection partner as we look to grow our oil recycling rate though increasing frequency of pickups and trialling a QR code driver validation system.

With increasing food costs, we are flexible in the way we procure, and we are constantly looking to limit exposure to the lines that are seeing the highest inflation at any one time. This may mean a higher level of product substitution than we would normally have, or the removal of some food items entirely, until markets settle down. We also look to use our scale purchasing power, where we can procure items across all brands, and hence secure volume advantage. We are confident in our ability to deliver long-term and sustained efficiencies and business improvements through the existing Ignite programme.

We remain committed to accelerating our digital strategy, an area which became increasingly important to guests during the pandemic. Our strategy focuses on building the correct organisational capabilities to allow for quick activation of new digital services as consumer behaviours change, allowing us to be at or near the forefront of digital advances in the sector. We have made significant progress in our digital services in recent years, for example our digital order at table facility, our streamlined online booking experience, and the development of our own channel delivery capability seeking to drive sales and protect margins.

Success in hospitality is inextricably linked to customer satisfaction, with the correlation between superior guest review scores and stronger like-for-like sales, irrefutable. When we re-opened our doors in FY 2021, we saw our guest review scores strengthen, from an average 4.0 out of 5.0 pre-Covid, to 4.3 post-Covid. Whilst there may have been a grace period in guest expectations post-lockdown, as the year progressed we were delighted to see these guest scores maintained, with every brand over 4.0. This is a solid foundation to build upon, and strengthening these scores further remains a key focus.

From the start of the financial year our capital programme has been resumed, delivering value by improving the competitive position of our pubs and restaurants within their local markets. We are committed to re-establishing a seven-year investment cycle and, whilst short-term supply issues in terms of material procurement and contractor availability affected progress last year, this continues to be a key focus for the business. This year we have completed 170 investment projects including 160 remodels, six conversions, the acquisition of the freehold of three sites that were previously leasehold and opened one new Alex site in Germany. We are continuing to see strong performances from our investment projects. The conversion programme includes the trial of Browns in suburbia, stretching the brand beyond its usual high street location. The first trial site opened in August and is performing well and a second has just opened in December.

## Current trading and outlook

Since the year end, we have been encouraged by like-for-like sales[a] growth of 6.5% as compared to FY 2022, which equates to growth of 11.1% excluding the VAT benefit in place last year. Comparing to FY 2019 pre-Covid-19, like-for-like sales[a] have grown by 9.2%.

The continued recovery of sales is encouraging, with a general return to office working, city centres becoming stronger and guests across the country becoming ever more confident to return to the hospitality sector. This makes us cautiously optimistic about the future, although we remain very mindful of the potential implications of the cost-of-living challenge facing guests, which is expected to persist at least through the year ahead.

Cost inflation headwinds continue to present a significant challenge for the sector as a whole, notably in energy, food and wages but now evident throughout our supply chains. Overall for the current year, we anticipate an inflationary cost headwind across our c. £1.8 billion cost base in the region of 10-12% before mitigation. The Energy Price Guarantee from the Government for businesses for six months from 1 October 2022 was welcome but energy costs are still expected to increase this year and significant uncertainty remains over the second half. At the current time we have bought forward 45% of this financial year's anticipated energy requirement.

The trading environment therefore remains very challenging. However, based on recent sales performance, the strength and diversity of our portfolio of brands, delivery of a new wave of efficiency initiatives under our proven Ignite programme and continued focus on our capital programme, we believe we are well positioned to meet this challenge.

**Phil Urban**
Chief Executive
Mitchells & Butlers plc

a. The Directors use a number of alternative performance measures ('APMs') that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 177 to 179 of this report.

# Scale and geographical diversity

Our strong portfolio of brands and formats includes All Bar One, Browns, Castle, Ember Inns, Harvester, Miller & Carter, Nicholson's, O'Neill's, Premium Country Pubs, Sizzling Pubs, Stonehouse, Toby Carvery and Vintage Inns. In addition, we operate Innkeeper's Collection hotels in the UK and Alex restaurants and bars in Germany.

**Alex**
42 sites

**All Bar One**
53 sites

**Browns**
24 sites

**Castle**
104 sites

**Ember Inns**
150 sites

**Harvester**
161 sites

**High Street**
69 sites

**Miller & Carter**
124 sites

**Nicholson's**
78 sites

**O'Neill's**
40 sites

**Premium Country Pubs**
125 sites

**Stonehouse**
92 sites

**Suburban**
242 sites

**Toby Carvery**
153 sites

**Vintage Inns**
179 sites

# 15

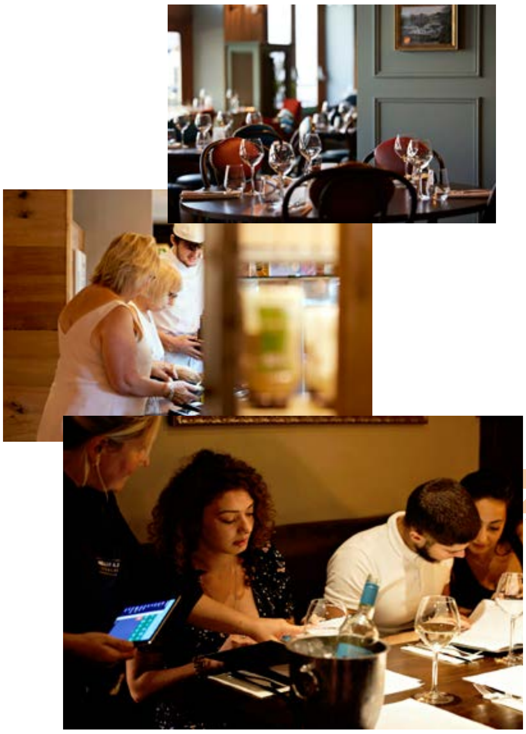
**Brands and formats**
*across 1,636 sites*

# 46,000+

**Employees**
*as at 24 September 2022*

# 83%

**Freehold and long leasehold properties**



## *UK revenue by region (FY 2022)*

*% of outlets*

| | | |
|---|---|---|
| 1 | Scotland | 5% |
| 2 | North West | 10% |
| 3 | North East | 3% |
| 4 | Yorkshire and Humberside | 8% |
| 5 | West Midlands | 15% |
| 6 | East Midlands | 5% |
| 7 | Wales | 4% |
| 8 | East of England | 8% |
| 9 | South West | 7% |
| 10 | South East (excluding London) | 14% |
| 11 | London | 21% |

# Our markets

*"The eating out industry continues to face challenges including rising costs and dampened consumer confidence as pressures intensify on the UK consumer."*

Whilst the trading environment remains challenging and uncertain, with increases in the cost of living putting continued pressure on consumers, the market has seen resilience in like-for-like sales over the year. The sector made a strong start to the year with like-for-like sales growth against 2019 of 3.2%[b] and 2.1%[b] over October and November 2021 respectively. This encouraging performance continued until late November when concerns first arose around the emergence of the new Covid variant, Omicron, leading to calls for further caution in socialising which resulted in a downturn in activity across the sector over the important festive season, with December like-for-like sales decline of -10.5%[b]. Thereafter, once it was confirmed that the symptoms of Omicron were generally mild, guest confidence to return to pubs and restaurants was boosted and like-for-like sales growth returned to the market. VAT reverted back from 12.5% to 20% on 1 April 2022 which contributed to a softening of sales growth over April and May but the market has remained either flat or in growth since. September 2022 saw 4.0%[b] like-for-like growth across the sector with the Restaurants, Pub Restaurants and Pubs segments, as defined by Coffer CGA, each in solid growth. However, we are mindful that pressures on the UK consumer are likely to continue to build in the short to medium term.

UK Consumer Confidence tumbled in September 2022 to a new low of -49[c], the worst overall index score since records began in 1974. Consumers have been squeezed under the pressure of the UK's growing cost-of-living crisis driven by rapidly rising food prices, domestic fuel bills and mortgage payments. However, eating and drinking out remains the affordable luxury that many consumers are looking to prioritise and have prioritised in the past. The sector is focused on retaining current guests, creating experiences that can't be replicated at home and delivering high levels of customer service to protect trading levels.

Inflationary cost pressures also impacted businesses and presented an increasing challenge to the hospitality sector as a whole, especially through the second half of the year. Whereas cost inflation has previously been concentrated in the areas of energy, wages and food costs it is now evident throughout most of the supply chain. These will prolong the medium-term impact on margins across the industry.

Supply of pubs and restaurants has reduced since March 2020 before the national lockdowns in response to Covid-19, with the financial pressure of closures and trading restrictions forcing a number of operators to close. According to the Alix Partners Market Recovery Monitor between March 2020 and September 2022, 11,426[d] pubs and restaurants have closed representing a net reduction in supply of 9.9%[d]. In just three months from June 2022 to September 2022, 2,230 closed, a net reduction of 2.1%, with all the decline from independent and leased businesses as cost pressures mounted.

Post-pandemic, delivery is now well entrenched in consumer behaviour and is expected to remain a significant part of the eating out market going forward. Sales are well above pre Covid-19 levels but there has started to be a flattening of demand as consumers return to the on trade.

Digital technology became increasingly important in supporting the industry during the pandemic and developments continue to accelerate. Guests are now more accustomed to digital elements of their experience in pubs and restaurants, such as scanning a QR code to access menus, and ordering and paying on their mobiles. 34%[e] of guests would be more likely to choose a venue with mobile order and pay available. There remains a great opportunity for technology to enhance guests' experience and this will be an increasing differentiator in the market.

The implications of Brexit remain for the sector, principally around the supply and cost of products and workforce shortages. Risks in relation to procurement have continued to be well managed by mitigating for the potential lack of availability of products, reviewing and updating key contracts, identifying contingency markets and maintaining strong commercial relationships with key suppliers. Our apprenticeship programme has been a key asset in managing the risk around workforce shortage and remains a focus for the business going forward.

The global political and macroeconomic environments remain volatile and we will continue to monitor the impact on our sector. Our Ignite programme of work remains at the core of our long-term value creation plans and we continue to focus on initiatives which enhance efficiency and productivity, helping to offset the inflationary cost pressures caused by external factors outside of our control.

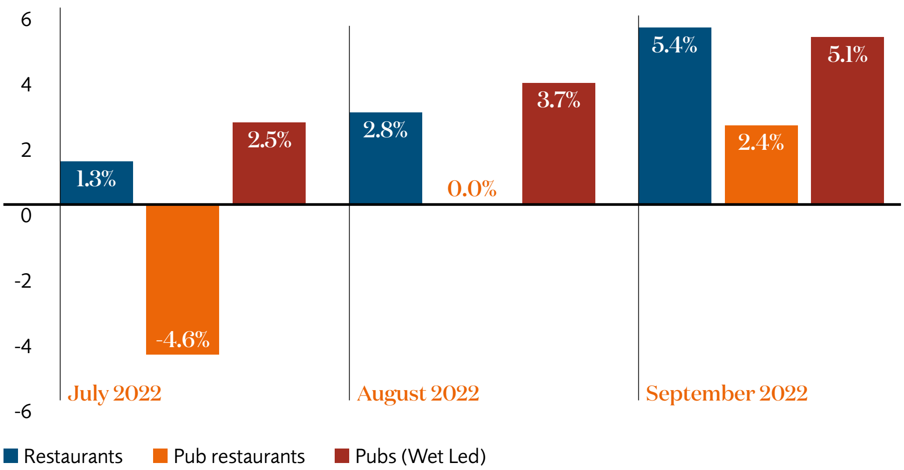
Our response to this competitive environment can be seen on pages 26 and 27.

**Sources:**

b. Coffer CGA Business Tracker.
c. GfK Consumer Confidence Index September 2022.
d. CGA AlixPartners Market Recovery Monitor October 2022.
e. Zonal GO Technology Report Order & Pay November 2020.

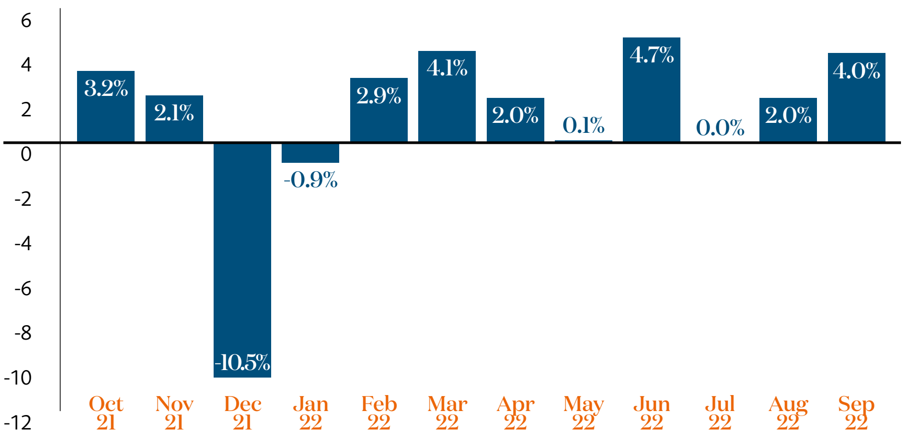
*"The global political and macroeconomic environments remain volatile and we will continue to monitor the impact on our sector."*

*Coffer CGA Business Tracker (including M&B) by Segment, vs. 2019*




Source: Coffer CGA Business Tracker

*Coffer CGA Business Tracker (including M&B), vs. 2019*




Source: Coffer CGA Business Tracker

*Net market outlet closures post Covid-19 pandemic and over the last three months*

| | Net market closures March 2020 to September 2022 | % change in total known sites March 2020 to September 2022 | Net market closures June 2022 to September 2022 | % change in total known sites June 2022 to September 2022 |
|---|---|---|---|---|
| Food-led | -5,195 | -12.0% | -665 | -1.7% |
| Drink-led | -5,124 | -8.4% | -1,449 | -2.5% |
| Accommodation-led | -1,107 | -10.3% | -116 | -1.2% |
| **Total** | **-11,426** | **-9.9%** | **-2,230** | **-2.1%** |

Source: CGA AlixPartners Market Recovery Monitor October 2022

# Our strategic priorities

*Maintaining our consistent three strategic priorities*

*"Through building a strong and efficient business we are able to focus on providing experiences which our team and guests enjoy being a part of."*

Our strategic priorities are the pillars which underpin the activity within the business to drive long-term sustainable growth and ultimately that enable us to achieve our purpose of being the host of life's memorable moments, bringing people and communities together through great experiences. Through building a strong and efficient business we are able to focus on providing experiences which our team and guests enjoy being a part of, including processes which are sustainable and aim to bring people together throughout our supply chain. We have maintained consistency in our three strategic priorities over recent years and believe that continued focus in these areas is key to retaining stability and growth in the business through a period of external uncertainty. Our three strategic pillars are:

- Build a more balanced business
- Instil a more commercial culture
- Drive an innovation agenda

Focusing on these areas through our Ignite programme of work, a wide range of management improvement initiatives, delivered significant progress generating sustained like-for-like sales[a] growth and cost efficiencies. Two waves of Ignite initiatives previously rolled out have directly led to enhanced performance over a number of areas, improving our trading levels and increasing profitability. The third wave of Ignite initiatives rolled out over the last year have continued this progress. We are focusing on initiatives which enhance efficiency and productivity, in areas such as automatic product ordering, enhanced labour scheduling, cost-mitigating procurement strategies and energy consumption reduction. We remain confident in our ability to deliver long-term and sustained efficiencies and business improvements through the existing Ignite programme.

We believe that our three strategic pillars remain the crucial elements of the business which will drive long-term growth. Through the Ignite workstream and our capital programme, we will continue to unlock value in these areas enhancing our competitive position in the market.

The table on page 27 outlines these strategic priorities, our progress against them in FY 2022, our priorities for FY 2023 and their link to our sustainability strategy, risks and KPIs.

*"We have maintained consistency in our three strategic priorities over recent years and believe that continued focus in these areas is key to retaining stability and growth in the business through a period of external uncertainty."*

a. The Directors use a number of alternative performance measures ('APMs') that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 177 to 179 of this report.

## 1. Build a more balanced business

- To effectively utilise our estate of largely freehold-backed properties
- To ensure we are exposed to the right market segments by having the optimal trading brand or concept in each outlet, based on location, site characteristics and local demographics
- To maintain the amenity level of the estate such that we operate safely, reduce our impact on the environment and remain competitive to guests, alongside meeting cash flow commitments

### FY 2022 progress

- Capital expenditure at £122m was below historic levels as progress was impacted by supply issues in terms of material procurement in the year
- Completed 166 conversions and remodels, purchased the freeholds of three businesses from leasehold and opened a new Alex site in Germany
- We opened our first Browns in a suburban location in August 2022 which is performing well and we will look to trial further if successful
- We are committed to re-establishing a seven-year investment cycle and this continues to be a key focus for the business

### FY 2023 priorities

- There is a full capital programme planned for FY 2023
- Focus on enhancing asset value through remodelling sites where we believe increased value can be unlocked
- Make further selective acquisitions where we feel they add value to the estate, and disposals where we feel we have extracted maximum value
- Honour the minimum maintenance spend as required by the securitisation structure and ensure effective allocation of capital
- Invest in technologies, such as voltage optimisers, heating additives and internet-connected control devices, to improve the energy efficiency of our estate
- Look to maximise the utility of the secondary spaces across the estate via a dedicated Ignite initiative. An example of recent innovation here is the opening of our first Arrowsmiths Darts Bar as part of an existing O'Neill's site

### Sustainability

- Enhancing the sustainability credentials of our buildings is a key priority
- During the year, we have invested in energy consumption reducing technology and will look for further opportunities to expand in future years
- We are reviewing the way in which we power our buildings for the longer term and will be trialling opportunities to produce renewable energy on-site
- Removing gas as an energy source from our sites is a key objective of our Net Zero roadmap. In the year, we have developed an all-electric kitchen for Toby Carvery which will be rolled out across the brand
- We are looking for opportunities to reduce water consumption and wastage

### Links to Key Risks

1, 2, 3, 8, 9, 11, 12, 13, 15

See pages 44 to 51

### Links to KPIs

2, 3, 4, 5

See pages 42 and 43

## 2. Instil a more commercial culture

- To empower teams across the business to make changes to facilitate sustainable growth
- To engage our teams in delivering outstanding guest experiences
- To act quickly and decisively to remain competitive in our fast-changing marketplace
- To provide training and development opportunities which allow our people to thrive within the business
- To enhance processes to address Modern Day Slavery threats in the supply chain

### FY 2022 progress

- Continued progress on menu and product rationalisation resulted in further cost savings
- Increased the scope of fraud detection capability via IntelliQ and reduced double discounting
- Successfully trialled automated team member scheduling to ensure we have the right people on shift at the right time, to drive sales at peak and reduce costs at quieter times
- Increased average spend-per-head through tailored pricing, menu psychology and digital ordering
- Increased focus on our guest review scores through a number of projects within the Ignite programme, including improving brand standards and guest recovery practices
- Delivered auto-ordering for food and drink, targeting increased product availability and reduced waste
- Trained energy ambassadors across the country to complete site energy audits, reducing consumption in our sites
- Increased oil collection and recycling rates through implementation of best practice processes
- Continued our work with Stop The Traffik to drive best practice in addressing Modern Day Slavery threats in the supply chain

### FY 2023 priorities

- Adapt to the changing environment within which we operate to maximise the profitability of each business
- Deliver a wide range of cost control initiatives across the estate under the Ignite programme
- Fully roll out automated team member scheduling
- Complete the installation of voltage optimisers to reduce electricity consumption and look to invest in further technologies
- Further exploit opportunities to move certain building maintenance services in-house to improve service and reduce cost
- Continue to leverage scale through central procurement and benchmark our businesses
- As per our Modern Day Slavery Statement, we will review and publish our performance against set KPIs

### Sustainability

- We now communicate our sustainability ambitions on all brand websites and have built our communication on these topics through social media in appropriate brands
- We have made good progress in reducing food waste, reduced by 29% from FY 2019 baseline and are launching a new trial in FY 2023 to help us better understand where waste is generated in sites to inform future strategies to further reduce it
- We are working in collaboration with our waste management providers and suppliers to reduce the amount of waste generated by the business
- We have worked with Social Bite to help provide employment to vulnerable people on their Jobs First programme

### Links to Key Risks

1, 2, 3, 6, 8, 9, 11, 12, 13, 15

See pages 44 to 51

### Links to KPIs

1, 2, 3, 5

See pages 42 and 43

## 3. Drive an innovation agenda

- To ensure that our brands and formats remain fresh and relevant within their market segments
- To leverage the increasing role technology can play in improving efficiency and guest experience
- To execute a digital strategy to engage with consumers across a variety of platforms
- To facilitate new product and concept development
- To utilise our scale and position to lead on environmental issues which impact our sector, finding innovative solutions to pressing issues

### FY 2022 progress

- Expanded our delivery offer to more sites and increased the number of channels available within the estate, with 82% of sites now offering one or more delivery channels
- Launched 'Own Channel Delivery' in Harvester whereby guests can order a meal for delivery through our own digital channels and the order is fulfilled by a third-party partner, Deliveroo
- Delivered 'conversational ordering' within our order-at-table platform which promotes trade-ups, increasing average order value
- Made enhancements to our customer relationship management including greater personalisation of e-mail content, reducing cannibalisation of promotions
- Optimised the table bookings systems used across our brands to ensure we have the best technology to maximise internal and external spaces bookings
- Created the first Toby Carvery Dark Kitchen, bringing the opportunity to enjoy the great taste of a Toby Carvery through our delivery partners in London
- Launched the 'Friends & Family' discount app, enabling our teams to nominate up to five friends or family members to enjoy 20% off food and drink Monday to Thursday

### FY 2023 priorities

- A fourth wave of Ignite initiatives is under review and will provide fresh ideas and innovation
- Continue to develop our order and pay-at-table technology with new features, user experience improvements and further upselling opportunities
- The introduction of 'My Account' functionality across all our digital channels that enables guests to manage their bookings, orders, loyalty and marketing preferences in one place
- Look to expand the Toby Dark Kitchen delivery offer to new sites across the estate
- Grow 'Own Channel Delivery' to our other key delivery brands to increase margin
- Maximise new and existing external trading areas
- Work with World Resources Institute to develop ways to reduce the emissions of the ingredients on our menus

### Sustainability

- During the year we trialled new menus designed to reduce the emissions of the food we serve, as well as identifying low emission dishes to guests
- We have active and ongoing discussions with our suppliers on innovative ways to reduce the environmental impact of our supply chain
- We are active members of the Zero Carbon Forum, a cross-industry group which is focused on finding solutions to help hospitality transition to a low carbon economy

### Links to Key Risks

1, 2, 4, 5, 8, 11, 12, 13, 14

See pages 44 to 51

### Links to KPIs

2, 3, 5

See pages 42 and 43

# Task Force on Climate-related Financial Disclosures

The purpose of this statement is to provide investors and wider stakeholders with an understanding of Mitchells & Butlers plc's exposure to climate-related risks and opportunities and our strategic response to managing those risks and opportunities.

At the time of publication, the Group has made climate-related financial disclosures consistent with the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, except that for this first year of disclosure, qualitative assessment of identified risks and opportunities will be provided. Quantitative analysis will be provided from next financial year.

## Governance

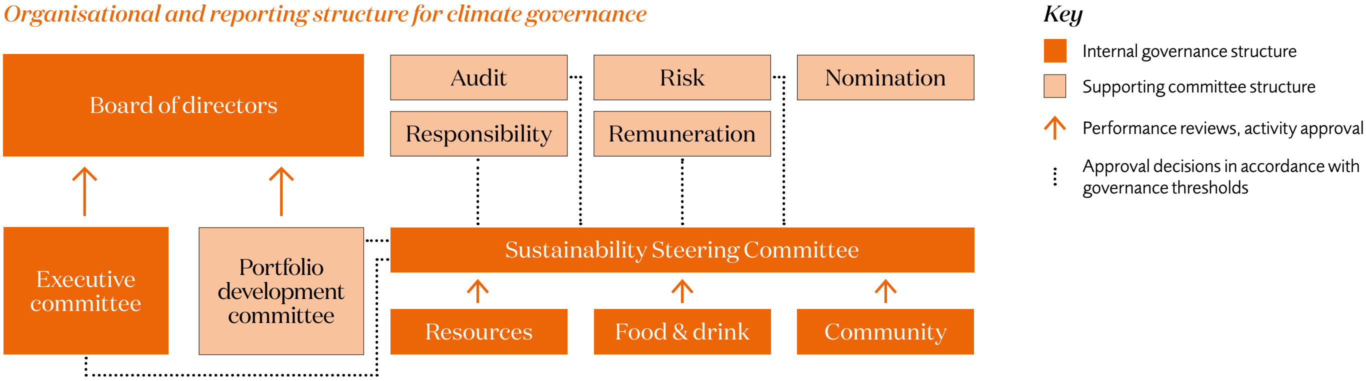
We, alongside our stakeholders, recognise that the health of our planet is critical to the wellbeing of society at large and that the food industry has a significant part to play in addressing the current climate emergency. We also recognise that the food industry will feel the effects of continued climate change ever more acutely which will result in changes in consumer behaviour, advances in innovation and the evolution of leisure offers to adapt to changing needs. The Board is committed to delivering the purpose of the organisation; to be the host of life's memorable moments, and to do so in a way which reduces the environmental harm caused by operations. We have developed a clear governance framework to support our assessment and response to climate-related matters.

### Board oversight of climate-related risks and opportunities

The Board is responsible for the long-term success of the Group and has an established framework in place which enables effective assessment and management of risks, including climate-related risks and opportunities. Responsibility for ESG matters is managed within the framework by the Corporate Responsibility Committee, which receives inputs from the Group Risk Committee on the management of climate-related risks, the Group Audit Committee on the financial consideration of climate-related risks and the Group Remuneration Committee on the inclusion of climate-related metrics in remuneration. The Corporate Responsibility Committee reviews the progress and guides the future direction of the sustainability strategy, including reporting on key metrics, and reports the findings back to the Board on a regular basis, such that climate-related risks and opportunities remain on the agenda for all Board members. As such climate-related risks and opportunities form an important part of the context of which the organisational strategy is considered and developed, ensuring that the Group is positioned to protect itself from financial and reputational risks associated with climate and to benefit from accelerating the sustainability programme in order to align brand propositions with guests' changing needs. When considering any business planning activity the Board takes into consideration the broader context of which trading environment, with details of the climate aspect provided by the Corporate Responsibility Committee. Investment in sustainable building practices forms an important aspect of the sustainability strategy and a standing agenda item has been added, to the review of all proposals, to ensure that sustainability credentials are considered on all capital expenditure projects.

*Responding to TCFD*

*Organisational and reporting structure for climate governance*




The Corporate Responsibility Committee meets at least quarterly and provides oversight of TCFD activity on behalf of the Board. The Board has asked one of its Non-Executive Directors, Dave Coplin, to take a lead role in oversight and development of the Company's approach to climate-related issues, working alongside a designated member of the Executive Committee and the Head of Sustainability. Dave Coplin has, for the last 30 years, been providing strategic advice and guidance on driving innovation and transformation to organisations and governments both here in the UK and around the world, giving him excellent experience in this role. The Corporate Responsibility Committee receives regular update papers, including reporting on key metrics, from the Sustainability Steering Committee to inform the committee on progress of specific initiatives designed to deliver defined ambitions, and future priorities and challenges. The Corporate Responsibility Committee provides feedback and guidance on the content of the papers to the Steering Committee and submits quarterly summary papers to the Board to inform the Board's understanding of the challenges faced and progress being made. In addition, to strengthen the response to climate-related issues the organisation is a founding member of the Zero Carbon Forum, with Executive Committee member involvement. The Zero Carbon Forum is a hospitality group bringing members together to tackle environmental issues, with input from experts the forum facilitates more efficiency in developing strategies to achieve sustainability targets than acting independently.

The Sustainability Steering Committee meets on a monthly basis with members of the Executive Committee to inform management of the progress on key initiatives and to discuss any decisions required by the Executive Committee. The Head of Sustainability attends Executive Committee meetings to provide informative sessions on the key, climate-related challenges facing the industry and how the sustainability strategy addresses these issues.

## Risk management

In response to the TCFD requirements we have performed a detailed review of the climate-related risks and opportunities relevant to the business. The resulting principal risks and further information can be found in the Risks and uncertainties section on page 44.

## Identifying, assessing and managing climate-related risks and opportunities

The following stages formed the process of identifying and assessing climate-related risks and opportunities:

- Workshops were held with external third parties who reviewed Mitchells & Butlers' operations before generating a list of climate-related risks and opportunities relevant to the business. These were considered alongside guidance from the World Business Council for Sustainable Development ('WBCSD') Food, Agriculture and Forest Products TCFD Preparer Forum to formulate a list of all the climate-related risks and opportunities which may impact our organisation.
- Workshops were held with representatives from relevant functions across the organisation to obtain a wide range of perspectives on the identified climate-related risks and opportunities. Using expert knowledge of the business and its supply chain, experience from past events and insight into guest behaviour each risk and opportunity was assessed and opinions were gathered on future change and perceived risk materiality. The output of the workshops was a reduced list of risks and opportunities which were considered to be most material to the organisation based on this qualitative assessment. This process helped to reinforce our response to TCFD requirements.
- Our established risk management framework and heat mapping was then used to establish which of those identified risks were likely to be material to our business, being those with a high likelihood and a high impact. Two risks were identified to be material, and therefore have now been included as Principal Risks, with the results discussed and approved by the Risk Committee.

Climate-related risks and opportunities will remain under ongoing review through the Sustainability Steering Committee and Risk Committee, supported by any further TCFD guidance and evolving corporate best practice. We will continue to consult with third parties to provide independent review of our responses to climate-related risks and opportunities and progress against our disclosed targets.

Through our membership and active involvement in industry-led organisations, such as the UK Hospitality Sustainability Committee and Zero Carbon Forum, and through regular dialogue with suppliers, we will continue to collaborate on our responses to climate risks and to seek out opportunities to progress against our goals. We engage actively with our suppliers on sustainability issues, including at our annual supplier conference, and will be seeking to further progress alignment of objectives which will help manage climate risks through Scope 3 emissions measurement and management.

In considering our climate risks and opportunities we have assessed short-term risks as being between 0-3 years in line with how we assess our principal risks and viability statement; medium-term risks as being between 3-6 years; and long-term risks between 6-20 years in line with our longer-term contracts and climate commitments.

## Climate-related risks and opportunities management and strategy

Our analysis of climate-related risks and opportunities has identified the following risks and opportunities. The risks of the introduction of carbon taxes and of increased severe weather events are considered as material and therefore have been included within our principal risks (see pages 44 to 51); these risks are consistent across all of our locations.

Climate-related risks primarily impact the financial planning process from the bottom up. Specific initiatives are developed on a brand-by-brand basis to ensure optimal alignment with guest needs, and therefore become an integral part of a brand's budgeting assumptions. Similarly, investment in sustainable technology and building practices are built into functional budgets, with investments such as trialling solar panels, part of the project plan for the year ahead. Capital expenditure in relation to sustainable developments may also be approved during the year as part of the overall capital budget. The financial, and environmental, impact of all sustainability initiatives are carefully tracked and reported to the Sustainability Steering Committee which in turn escalates any material impact to the Executive Committee.

A resilient sustainability strategy is in place, designed to mitigate the financial and reputational impact of climate-related risks and to capture the benefit of aligning our brand proposition to changing consumer needs. In particular, we have a well-developed transition plan to Net Zero, which has been designed in collaboration with third-party experts and will be submitted to the Science Based Targets initiative for approval during the next financial year. This detailed roadmap provides the benchmark against which performance can be tracked to a low emission economy, with our contribution clearly understood as well as that of our suppliers, such that we can influence others in our supply chain to reduce their emissions. Sustainability is a key priority for the Board and management and remains so despite the challenges currently faced by the industry as a whole.

Below is a summary of the climate-related risks included within our principal risk register; for further details on our risk assessment framework please see page 44.

| *Transition risk* | *Physical risk* | *Transition opportunity* |
|---|---|---|
| **Risk**<br>Introduction of carbon taxes and levies | **Risk**<br>Increased severity of extreme weather events | **Risk**<br>Adjusting brand propositions to appeal to changing consumer preferences |
| **Category**<br>Operational costs | **Category**<br>Acute | **Category**<br>Revenue |
| **Description**<br>This risk represents the impact on operating costs of the business both directly through taxation and indirectly through higher input costs which would result from the introduction of taxation and levies attributed to greenhouse gas emissions.<br><br>Qualitative assessment has identified this risk as both high in impact and likelihood over the short to medium term. The introduction of a form of carbon taxation is likely to be introduced as pressure mounts for progress to be made against the Government ambition to achieve Net Zero by 2050. | **Description**<br>This acute physical risk represents the risk to both revenue and the supply chain of increased severe events. Revenue would be impacted through the interruption to trade caused by both extremely hot weather and adverse weather such as rain and snow, and possible site closure as a result of flooding. In addition, the availability of products in the supply chain, in particular agricultural produce, could be impacted by severe weather having an effect on product availability and input prices.<br><br>The qualitative assessment included a high-level review of previous interruption to trade resulting from extreme weather as well as scientific forecasts as to the likely increase in extreme weather events which has resulted in the risk being identified as both high impact and high likelihood. | **Description**<br>Changing consumer preferences towards products seen as better for the environment, for example dietary shifts towards low carbon products, presents an opportunity for the Group to position brands to appeal in an evolving market. The breadth of brands within the Group portfolio provides the opportunity to test adapted brand propositions in a low risk way and to therefore be ahead of the market when consumer preferences begin to change in the mass market. |
| **Approach to risk/opportunity management**<br>We are a member of the UK Hospitality Sustainability Committee which enables us to have foresight over potential policy changes impacting the organisation.<br><br>We have developed a Net Zero strategy with a target date of 2040. The strategy has been developed in partnership with an independent third party and will be submitted for Science Based Targets initiative approval during FY 2023.<br><br>We have a number of initiatives underway designed to reduce our emissions in line with our Net Zero roadmap. The detailed plan for reduction will help to mitigate an element of potential cost, and a target date ahead of Government ambition will help to position the organisation ahead of the market average. | **Approach to risk/opportunity management**<br>The weather has a high level of impact on trading levels across the estate and therefore monitoring weather forecasts in relation to expected trading levels is a normal part of the financial planning of the business.<br><br>This monitoring activity will enable us to identify when patterns of increased instances of extreme weather events begin to develop.<br><br>In relation to site closure due to damage to buildings, such as during flooding, we have insurance in place to recover the lost trade and required repairs. Our experience during closure has meant that we have developed strategies to close sites at short notice, such that in the instance of extreme weather significantly impacting trade we could close sites in order to mitigate some of the financial losses which we would be exposed to.<br><br>To manage the risk associated with our supply chain, we monitor and communicate with our suppliers closely giving us foresight over potential supply issues. We also have sufficient breadth of products and dishes across our brands such that supply issues with one product could be mitigated through switching to a substitute. | **Approach to risk/opportunity management**<br>All of the initiatives under the sustainability strategy help to strengthen the Group's position in relation to environmental matters. This allows our brands to communicate with guests on environmental issues with consistency across the portfolio and to build a reputation for sustainable operations.<br><br>Our focus on achieving ambitious environmental targets will position the Group well to benefit from changing consumer habits. Our ability to trial proposition adaptations in appropriate brands to gauge guest reaction will ensure we are well prepared to make informed decisions. In addition, our scale and commitment to our investment programme will enable the Group to enhance the sustainability credentials of its properties. |
| **Future measurement considerations**<br>The approach to the quantitative assessment to be performed during FY 2023 will be to take the Group's forecast carbon emissions, from our Net Zero roadmap, and to apply DEFRA published carbon values over the short, medium and long term giving an estimate of the potential financial impact of the introduction of carbon taxes. | **Future measurement considerations**<br>The quantitative assessment to be performed during FY 2023 will involve a detailed analysis of previous impact on trade of extreme weather to determine the potential impact on revenue and the supply chain of a variety of weather events. The increase of extreme weather events will be derived from climate-science research and applied to two scenarios of degrees of climate warming over the short, medium and long-term time horizons to determine the potential financial impacts. | **Future measurement considerations**<br>Consumer insight is continuously reviewed and is used to inform brand evolution. In addition, direct consumer feedback is used to highlight changing guest preferences, and reactions to brand changes designed to enhance environmental credentials.<br><br>Alongside financial performance these metrics will inform the future evolution of our brands. |
| **Horizon**<br>Short – medium term | **Horizon**<br>Short – medium term | **Horizon**<br>Short – medium term |

## Climate-related metrics

The below metrics are used either to track the performance of strategies designed to mitigate the impact of the principal climate-related risks, or as an internal measure of risk exposure. These measures are not yet included within remuneration policies. Historical greenhouse gas emissions, Scope 1 and 2, are available in previous annual reports, where the context of year-on-year movement and Covid-19 impact is provided.

| *Metric category* | *Metric* | *Group targets* | *Link to identified risks and opportunities* |
|---|---|---|---|
| **Climate-related risk**<br>Greenhouse gas emissions Scope 1, 2 and 3<br><br>**Unit of measure**<br>$tCO_2e$ | Absolute Scope 1, 2 and 3 emissions calculated in accordance with Greenhouse Gas Protocol guidance by an independent third party. | Yes – Group target set, Net Zero by 2040.<br><br>We align our definition of Net Zero to the SBTi corporate standard. Our Net Zero target includes our Scope 1, 2 & 3 emissions, using an operational control approach. We have set a near-term target (pending submission/ validation from SBTi) to reduce our absolute Scope 1 & 2 GHG emissions 70% by 2030, compared to a 2019 base year (aligned to 1.5 degrees) and a target to reduce our absolute Scope 3 emissions 28% over the same timeframe. We have also set a long-term target (pending submission/validation from SBTi) to reduce absolute GHG emissions from Scopes 1, 2 & 3 90% by 2040 from a 2019 base year and to be Net Zero by 2040. Aligned to the SBTi criteria we will offset our residual 10% emissions using carbon removal offsets at our Net Zero date. | Carbon taxes and levies. |
| **Climate-related risk**<br>Proportion of estate exposed to flood risk<br><br>**Unit of measure**<br>% of estate | Proportion of sites within the estate identified as high or medium flood risk due to proximity to rivers and coasts. | No target set, used as an internal measure of risk exposure. | Physical risk – increased instances of severe weather events. |
| **Climate-related opportunity**<br>Transition to renewable energy<br><br>**Unit of measure**<br>% and megawatt hour ('MWh') | Percentage and MWh of energy consumption which is purchased from renewable sources. | No target set, reported as an indicator of progress. | Carbon taxes and levies. |
| **Climate-related opportunity**<br>Workforce competence<br><br>**Unit of measure**<br>Number | Training provided to key groups or functions centrally. Completion of sustainability induction for frontline teams. | No targets set, to be considered during FY 2023. | Carbon taxes and levies. |

# Our sustainability targets

*Our strategy has been developed to align with the issues addressed by the UN SDGs*

*"We have set challenging sustainability targets against which we will monitor our progress."*

We have been working on enhancing the sustainability of our operations since 2019; this focus underpins our strategic priorities and is a part of the way we want to do business. We aim to make sustainable operation part of the culture of the business and have purposefully integrated sustainability initiatives into the relevant functional areas, such that we build knowledge and experience within our teams.

Our strategy has been developed to align with the issues addressed by the UN Sustainable Development Goals and Paris Climate Agreement. We have committed to reducing the negative impact of our business model on the environment in light of these objectives. Our Net Zero ambition has been developed to align with the Science Based Targets initiative methodology to keep global warming well below 2°C.

We have identified the UN Sustainable Development Goals which we believe we can have the greatest impact on, and have aligned these to our strategic pillars as shown below. For each of the pillars we have defined our objective, key actions and targets. We are members of industry groups such as the UK Hospitality Sustainability Committee and Zero Carbon Forum, to share best practice with the intention of moving the industry forward as a whole.

Details on the link between our sustainability strategy and our strategic pillars can be seen on page 27.

## *Sustainability strategic pillars*

### 1. Respect for the planet

**Objective**
We are committed to reducing our emissions, tackling waste and protecting biodiversity

**Key actions**
- Completed our Net Zero roadmap in collaboration with third-party experts, providing a detailed plan for decarbonisation
- Submit our Net Zero roadmap for Science Based Targets initiative approval during FY 2023
- Founding and active member of the Zero Carbon Forum, bringing the industry together to reduce emissions across the sector through shared learning and insights
- Continue to purchase 100% renewable electricity
- Develop a programme plan to remove gas from the estate and to increase on site renewable energy generation
- Increased the proportion of operational waste diverted from landfill to 96%
- Target to increase recycling rate to 80% across the estate by 2030, currently 58%, through team engagement and working with suppliers on more sustainable packaging

**UN Sustainable Goal alignment**

12 Responsible consumption and production
14 Life below water
15 Life on land

### 2. Pride in our offers

**Objective**
We strive to deliver responsibly sourced products and menu options for everyone

**Key actions**
- Evolve our menus to support our ambition of reducing food emissions
- Work with suppliers across all categories to understand and improve the environmental credentials of the products we buy
- Maintain BBFAW Tier 3 rating
- Supplier agreements set out sustainability expectations and standards supported by annual supplier conferences
- Continued focus on enhancing the nutritional balance and information available on menus
- All direct palm oil purchases are from Rainforest Alliance Approved sources

**UN Sustainable Goal alignment**

1 No poverty
2 Zero hunger
5 Gender equality
8 Decent work and economic growth

### 3. Care for communities

**Objective**
People are central to our business, we are focused on supporting our teams and the communities we serve

**Key actions**
- Strategic partnerships with charities developed, including Shelter and Social Bite
- Expand our programme with Social Bite, supporting vulnerable people back into employment
- Enhanced employee wellbeing strategy and improved resources and tools available to employees
- Increase the number of volunteering hours offered by our teams
- Brand-driven relationships with local organisations and charities
- Modern Day Slavery policies enhanced, with actual risk assessment completed, in partnership with Stop the Traffik

**UN Sustainable Goal alignment**

11 Sustainable cities and communities
13 Climate action

# *Our targets*

## 1. Net Zero greenhouse gas emissions by 2040

**Target** Achieve Net Zero greenhouse gas emissions by 2040 (absolute reduction of emissions, including Scope 1, 2 and 3) from our FY 2019 baseline.

**Performance** Our Scope 1, 2 and 3 greenhouse gas emissions have decreased by 36% against our FY 2019 baseline in FY 2022. The reduction is primarily due to reduced electricity consumption during FY 2022, as well as a material reduction in food emissions. Details of the breakdown of our emissions and opportunities for reduction can be found on pages 69 to 71.

Total Scope 1 and 2 emissions reduced by 25% in FY 2022, driven by a reduction in electricity consumption during FY 2022. The stated reduction is based on the location-based calculation, which reflects reduced consumption. On a market-based calculation the reduction is higher due to the increased proportion of renewable energy purchased since the baseline year. Scope 1 emissions include direct emissions from controlled or owned resources and Scope 2 emissions include indirect emissions from the generation of purchased electricity, heating and cooling. The reduction of Scope 1 and 2 emissions has been driven by a focused reduction in energy consumption. We have a team of energy ambassadors in place across the business who are trained to help fellow managers to reduce their energy consumption and to identify areas of opportunity; the efforts of this team have helped to reduce consumption in the year. In addition, we have invested this year in voltage optimisers and a technology which helps to improve the efficiency of heating systems.

Our Scope 3 emissions include all other indirect emissions that occur in our value chain; these include food and drinks purchased, guest travel, employee travel, our capital programme, logistics, other purchases and waste generated in operations. Scope 3 emissions represent 87% of our baseline footprint and this year we have completed our Net Zero roadmap with a third-party expert and have a clear pathway to achieving our target reduction of Scope 3 emissions. As food is the largest individual contributor to our footprint, we are focused on reducing the emissions of the ingredients on our menus through engagement with suppliers, as well as tweaking the recipes of dishes and encouraging guests to opt for lower emission dishes. During FY 2022 we completed menu trials in two brands, in collaboration with the World Resources Institute, which resulted in c.10% emission reductions. We will continue to progress in this area with the aim of reducing the emissions of our menus across all brands, which is a key focus for achieving Net Zero.

**Zero**

Target to achieve Net Zero greenhouse gas emissions *by 2040*

## 2. Zero operational waste to landfill

**Target** Zero operational waste to landfill by 2030.

**Performance** During the year we have diverted 96% of operational waste from landfill. In partnership with our waste management providers we have run a bin optimisation programme, ensuring that all of our sites have appropriate recycling and general waste bins in the most accessible areas of the business, to encourage improved segregation of waste. This has helped us improve our recycling rate to 58%.

However, we have targeted a recycling rate of 80% by 2030 and are working across a number of fronts to achieve an improvement in the proportion of waste we recycle. We are working with suppliers to reduce the volume of packaging entering our sites, and to ensure that as much packaging as possible can be recycled, as well as engaging teams in the positive environmental impact they can have by increasing recycling rates. We face challenges in some geographies where recycling of materials is not yet available and we continue to investigate opportunities to access recycling in these areas.

**Zero**

Target to achieve zero operational waste to landfill *by 2030*

## 3. Food waste

**Target** Reduce food waste by 50% by 2030 from our FY 2019 baseline.

**Performance** This year we have achieved a 29% reduction in food waste against our FY 2019 baseline. Significant progress has been made in food waste management in both our supply chain and in our sites.

Within the supply chain, food waste has been reduced through enhanced management of events which generate waste. For example, excess stock was previously wasted when seasonal menu changes were made in brands. However, now an advance plan is made to utilise that excess stock in advance of menu changes resulting in significantly less waste. A review of low volume, high waste items has also facilitated menu changes designed to reduce waste by removing these items. In addition, we began working with FareShare during FY 2022 donating unavoidable waste to charities and community groups who can ensure the food goes to those who need it. During the year, 26% of supply chain waste was donated through FareShare.

In our sites food waste reduction has been achieved through strengthened operational procedures which reduce the level of waste generated during the food prep process, including accurate portion sizes from suppliers, as well as reduced menu complexity. The introduction of auto-ordering has helped to improve the forecasting of dish mix and therefore reduced waste through spoilage. In addition, we have rolled out Too Good To Go across four brands, saving c.15,000 meals a week from wastage.

Unavoidable food waste from our pubs and restaurants is sent to anaerobic digestion. The digestion process itself creates biogas which is then captured and used to generate electricity.

**50%**

Target to reduce food waste by 50% *by 2030*

# Our business model

*The Mitchells & Butlers difference*

In this section, we outline the distinctive characteristics of Mitchells & Butlers that enable it to create value for its stakeholders – be they financial, structural, environmental or cultural.

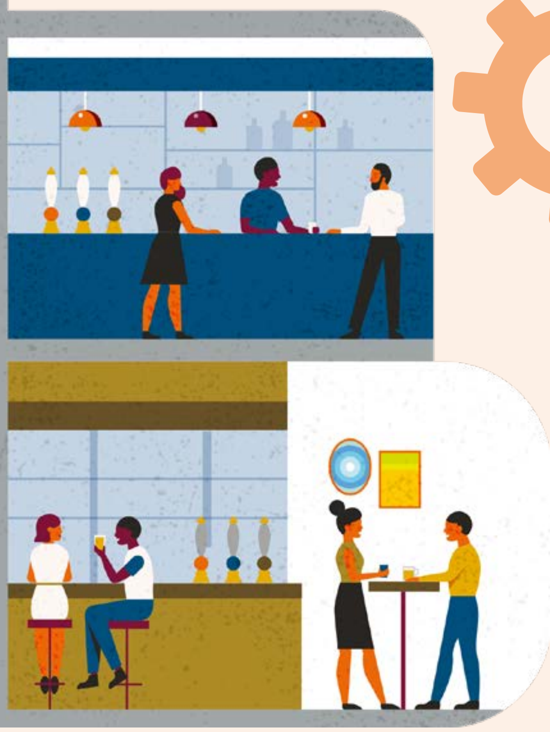
## Financial

- Long-term transfer of value to equity as debt is paid down
- Strategy designed to generate sustainable growth and to provide flexibility in uncertain trading environments

More detail on our financial performance can be seen on pages 55 to 58.

## Structural

- We are largely hedged against changes in consumer taste thanks to our diversified portfolio of leading brands and offers which cater for various demographics and disposable income levels. See pages 12 and 13
- We are a predominantly freehold business with well-invested properties
- As one of the largest operators we benefit from economies of scale driven by our central functions
- We understand our guests and have the systems in place to receive and react to their changing needs to evolve our offers

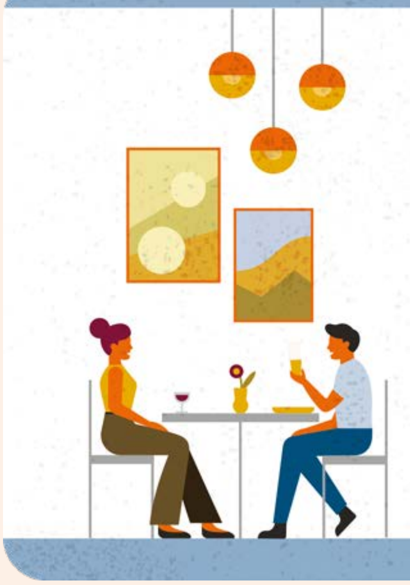


## Environmental

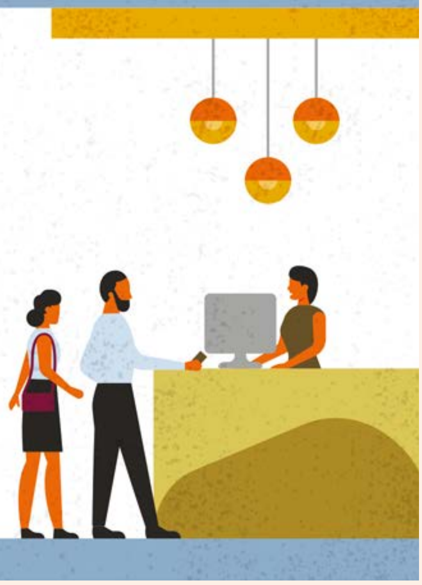
- Our sustainability strategy is designed to create a positive effect on people and communities and to reduce the negative effect of our operations on the environment

For more detail on our sustainability strategy, see pages 32 and 33.


## Cultural



- We have a defined purpose supported by our PRIDE (Passion, Respect, Innovation, Drive, Engagement) values
- Our people strategy encompasses a structured approach to recruitment, retention, development and engagement
- We have a team of dedicated, knowledgeable and capable people who are critical to delivering outstanding experiences to our guests



# How we create value

*The Mitchells & Butlers difference*

Our business model is driven by our understanding of our guests and our ability to evolve our brands and offers to reflect changes in their needs.

Critical to the delivery of our offers is the quality of our people, supply chain, estate and central functions, which provide the infrastructure through which our brands deliver memorable moments to our guests.

Our success in creating these moments consistently, safely and profitably creates long-term value for our stakeholders.

## 2

*Understanding what our guests want influences every element of our brands and offers.*


## 3

*Everything we do is...*

*Run by our people...*

**46,844***

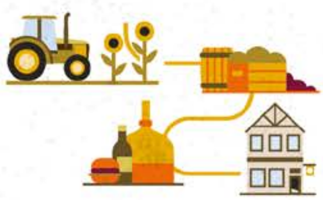
Employees

* As at 24 September 2022.

*Supplied by our supply chain...*

**1,508**

Suppliers



*Realised within our estate...*

**1,718**

Pubs, bars and restaurants

*Supported and managed by our central functions...*

- Finance and Technology
- Human Resources
- Legal and Risk
- Marketing
- Procurement
- Property

*The combination of our brands, people, supply chain, estate and central functions creates memorable moments for our guests.*

*Local community*

*Environment*

*Investors*

# Value creation story

*FY 2022 highlights*

## *Suppliers*

BBFAW
Business Benchmark on Farm Animal Welfare

*Achieved tier 3 Business Benchmark on Farm Animal Welfare rating*

*Strong relationships have facilitated good supply chain management through Covid-19 disruptions*

FareShare
fighting hunger, tackling food waste

*Donated unavoidable surplus food in the supply chain in partnership with FareShare*

Our suppliers provide the products which bring our brand visions to life. Our guests' tastes are continuously evolving and our ability to meet changing preferences at scale sets us apart from our competitors.

We build long-term and collaborative partnerships with our suppliers. We work closely with suppliers to ensure the needs of both businesses are met and to ensure relationships are maintained. By working together, we can develop new and innovative products with suppliers which help our brands adapt and evolve, building both of our businesses. Through these partnerships, we work to maintain transparency about our payment terms.

We work with suppliers to understand the environmental impact of our supply chain and to minimise the negative impact of production and transportation. We are working to ensure that all our suppliers can support our sustainability ambitions, including prioritising high animal welfare standards. Further detail on our sustainability strategy can be seen on pages 32 and 33.

## *Guests*

**4+**

**Online review score of over 4 out of 5 across the business**

*Industry leading safety scores*

The satisfaction and enjoyment of our guests is critical to the success of our business. We always aim to exceed guests' expectations and continually evolve our offers with that objective in mind.

We collate guest feedback through online channels and via our brand surveys which is reviewed centrally and used to provide valuable insight to both our operations and brand marketing teams.

We have always strived to achieve high safety and hygiene standards and have used this strong base to evolve our ways of working for the challenges we face. We focus on ensuring high-quality, consistent practices across the business. We constantly review the new procedures to ensure that both high safety levels and guest satisfaction can be achieved.

As ever, high-quality food and drink, served by an engaged team, in an appealing environment remain key elements to providing our guests with memorable experiences, alongside the highest safety standards. We regularly assess changing guest preferences across these areas to position our brands for success.

# *Employees*

*Growing and developing our internal talent is a priority to address talent shortages*

*Innovative recruitment and attraction solutions ensuring the right people join our business*

*Employee wellbeing has never been more important*

The following table sets out our diversity balance between men and women at the end of FY 2022.

| | Men | Women |
|---|---|---|
| Directors | 7 | 2 |
| Other senior managers | 29 | 13 |
| All employees | 21,896 | 24,948 |

Our people are central to our business, bringing brand visions to life through engaging interaction with our guests and preparation of high-quality food and drink.

Through our open and inclusive culture, we aim to create an environment which allows our people to develop and grow. Recruiting effectively is important as it ensures that we attract the right people that will thrive in our organisation. Increasingly, technology can be helpful in supporting our recruitment activity, and enables us to market our job opportunities effectively in a very competitive environment.

We are proud of the learning and development opportunities we offer and strive to provide progression opportunities to all our people. Over the past year we have increased the number of people promoted internally, particularly at the frontline.

Regular development catch ups are held throughout the year to support employees' progression and personal development.

We have two formal feedback surveys a year providing the opportunity to gain insight into employee satisfaction and to highlight opportunities to improve our offer as an employer.

Employee forums are hosted by the Executive Committee team members and enable all employees to raise issues via elected representatives, giving them the opportunity to directly discuss any issues.

The welfare of our employees is of paramount importance to us and we continually review the support we offer to employees across the business.

Dave Coplin, an independent Non-Executive Director, is the nominated Board member responsible for representing the employee voice at Board level.

We are committed to providing equal opportunities for all our employees. Our employee Diversity and Inclusion Policy ensures that every employee, without exception, is treated equally and fairly and that all our employees are aware of their responsibilities.

## *Local community*

*Developed a nutritional roadmap focused on enhanced information and balanced choices*

**£143m**

**Tax paid (not including tax collected, e.g. VAT)**

**7**

**Employed seven people from the Social Bite academy, helping people who have experienced homelessness back into work**

**No. 5**

**Harvester awarded number five in Out to Lunch rankings by The Soil Association**

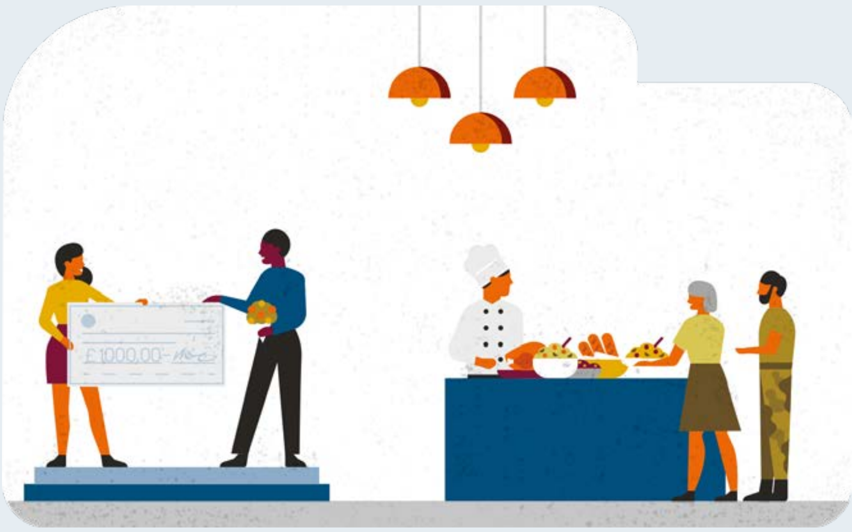
*Pledge to the Peas Please campaign*

*Over 80 tonnes of food waste donated to charities via FareShare during the last three years*

We have a long history of providing a central hub to many communities where people have met and socialised for decades.

Many of our brands are long-standing supporters of causes which resonate with the brand and its guests. For example, All Bar One supports Shelter with selected dishes including a donation, Toby Carvery supports the Armed Forces and Nicholson's supports the Royal National Lifeboat Institution ('RNLI').

We are actively looking to enhance the positive impact we can have on local communities, including supporting charities, providing career opportunities, encouraging responsible drinking, and supporting health by enhancing and providing information on the nutritional content of our meals.




## *Environment*

*All direct palm oil purchases continue to be sourced from Rainforest Alliance approved suppliers*

**96%**

**96% of operational waste diverted from landfill**

*Committed to achieving Net Zero emissions by 2040*

*Harvester and All Bar One menu trials deliver significant carbon emission savings*

The natural environment provides the business with the resources it needs to operate. We take our responsibility to protect that environment seriously and have set stretching targets to reduce the negative impact of our business.

We have aligned our objectives with the UN Sustainable Development Goals in order to focus our efforts on the global priorities. Our aim is to embed a sustainable way of doing business within our current operations such that it becomes business as usual and we are doing that through a Board-level committee, steering committee and focused workstreams with representatives from across the business.

The food industry has an important part to play in climate change, as food supply chains are a significant factor in rising greenhouse gas emissions and in the reduction of biodiversity. We have measured our baseline emissions and have used this to create a roadmap for reduction which is one of our priority areas. We are also conscious of the food industry's significant impact on biodiversity which is another area we are balancing within our future plans to reduce the negative impact our organisation has on the environment and to enhance the positive outcomes wherever possible.

Further detail of our sustainability strategy can be found on pages 32 and 33.

# *Investors*

*Strong stewardship through the Covid-19 pandemic*

*Equity raise in FY 2021 gave strength to balance sheet*

*Reporting on Environmental, Social and Governance issues enhanced*

Our investors are made up of our shareholders and bondholders who play an important role in monitoring and safeguarding the governance of the Company.

We aim to demonstrate the responsible stewardship of the Company from a financial, strategic, governance, environmental and ethical perspective. We have a highly effective Board, with Directors with various specialisms and backgrounds to best govern the Company. Their biographies can be found on pages 62 and 63.

We maintain an open dialogue through our investor relations programme. We update investors and bond holders on financial and strategic performance through regular performance updates and facilitate discussion through meetings, roadshows and our Annual General Meeting.

Board-level committees ensure that appropriate time and focus is allocated to the key areas of governance of the business and, where necessary, expert third parties are consulted. The Board provides a healthy level of challenge and debate on key areas and has been successful in moving the business forward.

The Executive Committee consists of members of management from across the business who have a wealth of experience both within the hospitality industry and from other sectors. Their biographies can be found on our website at www.mbplc.com/investors/our-management.

We recognise that it is important that our investors have transparency over the operation of our business and the full details of our governance procedures are set out on pages 73 to 84.

# Key performance indicators

*Measuring performance*

We measure our performance against our strategy through five key performance indicators.

## *1. Staff turnover*

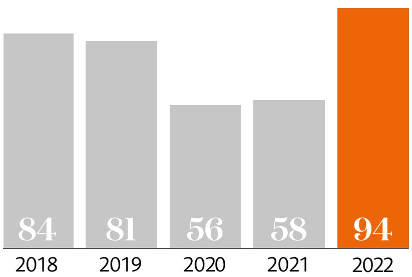
**Definition**

The number of leavers in our retail businesses, expressed as a percentage of the average number of retail employees. This like-for-like measure excludes site management. The turnover measurement gives an indication of the retention of retail staff and can help to identify if there is an arising retention issue in any area of the business which could highlight an engagement issue. In addition, as team members go through a thorough induction and training process there is an element of cost for each person who leaves the business. Therefore, it is important for the Board to monitor this measure.

**FY 2022 performance**

Over the past two years turnover was suppressed by the impact of Covid-19 as there were minimal leavers during closure periods. In comparison to FY 2021, turnover in FY 2022 increased by 36 ppts to 94%. This increase reflected the very challenging labour market with the industry overall seeing higher levels of employee turnover during the reopening and recovery period post Covid-19 closures. Our ongoing focus is to deliver and enhance our people promise to meet the needs of our employees and improve retention.

94%




**Links to strategic priorities: 2**
*See pages 26 and 27*

## *2. Guest review score*

**Definition**

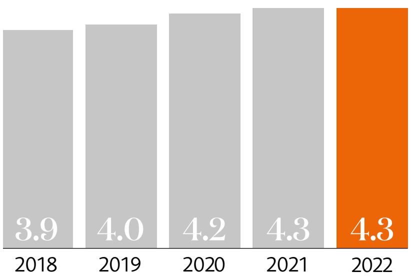
For several years, Mitchells & Butlers, along with many other hospitality businesses and other retail businesses, used Net Promoter Score ('NPS') as a measure of guest satisfaction with the experience it provides and reported NPS in its Annual Report.

NPS was derived from surveys which we ask guests to complete following a visit to one of our outlets. However, in recent years, these surveys have been increasingly superseded by guest reviews posted on Google, Facebook, Tripadvisor and other review sites. In recognition of this trend, we have changed our reported guest measure to be an average feedback score across the major third-party feedback channels, with effect from the end of FY 2022.

**FY 2022 performance**

Our average feedback score across all major feedback channels was 4.3 out of 5.0 for FY 2022, in line with our FY 2021 score and ahead of previous years. Improving this score remains a key focus of the business as we aim to create memorable moments for our guests. There is a collection of Ignite projects underway to further improve this metric.

4.3




**Links to strategic priorities: 1, 2 and 3**
*See pages 26 and 27*

## *3. Year-on-year same outlet like-for-like sales[a]*

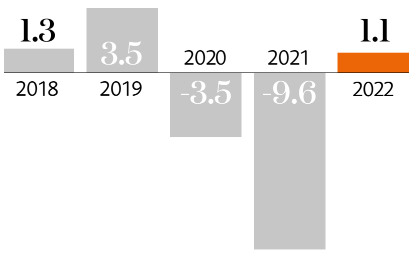
**Definition**

Sales this year compared to the sales in FY 2019, being the last full year pre-Covid-19, of all UK managed sites that were trading in the two periods being compared, expressed as a percentage. Like-for-like sales[a] is an important indicator of how the business is performing in the context of its previous performance, the long-term trend of which can reflect improvements in guest appeal. Whilst we have compared to FY 2019 during FY 2021 and FY 2022 due to the significant impact Covid-19 had on trade, going forward we will revert to the previous calculation of using the previous financial year as a comparative.

**FY 2022 performance**

Like-for-like sales[a] increased by 1.1% in FY 2022 vs. FY 2019. Growth was driven by food sales with the strongest performances in our premium, food-led brands. The first half of FY 2022 was assisted by a lower rate of VAT on food and non-alcoholic drinks at 12.5% compared to the full rate of 20% in FY 2019.

1.1%




**Links to strategic priorities: 1, 2 and 3**
*See pages 26 and 27*

## *4. Incremental return on expansionary capital[a]*

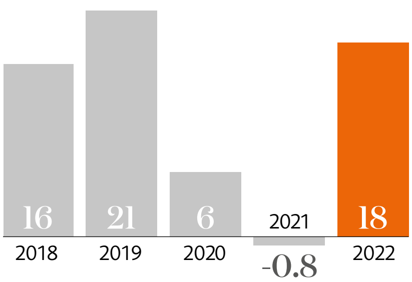
### Definition

Expansionary capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Incremental return is the growth in annual site EBITDA, expressed as a percentage of expansionary capital. Is it important for the Board to monitor return on investment as it indicates the success of the capital programme which underpins one of our three key strategic pillars, to build a balanced business.

### FY 2022 performance

The EBITDA return on all conversion and acquisition capital invested over last four years was 18%. This level of return is not indicative of the quality of the investment programme but largely due to the reduced trading levels due to Covid-19 restrictions that are captured in the calculation. Our capital programme continues to be a key focus of the business and one which we believe will deliver significant future value.

# 18%




**Links to strategic priorities: 1**
*See pages 26 and 27*

## *5. Adjusted operating profit[a]*

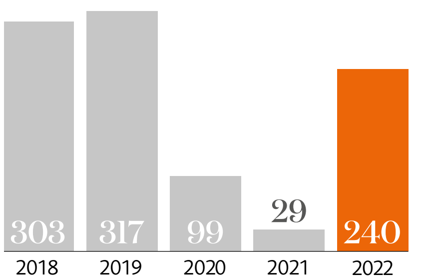
### Definition

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately disclosed by virtue of their size or incidence. Excluding these items allows an understanding of the trading of the Group. The Board monitors adjusted operating profit as one of the financial health indicators, as it helps to reveal how efficiently the business is being operated.

### FY 2022 performance

Adjusted operating profit[a] for the year of £240m was significantly higher than the prior year. This increase in profit is predominantly due to the impacts of Covid-19 during FY 2021, including closure and reduced trading levels. FY 2022 was notably lower than FY 2019, the last year pre Covid-19, due to the negative impact of the Omicron Covid-19 variant on trading in December 2021 and significant cost headwinds, particularly across food costs, labour and energy.

# £240m




**Links to strategic priorities: 1, 2 and 3**
*See pages 26 and 27*

a. The Directors use a number of alternative performance measures ('APMs') that are considered critical to aid the understanding of the Group's performance. Key measures are explained on pages 177 to 179 of this report.

# Risks and uncertainties

*Keeping risk under control*

## This section highlights the principal risks and uncertainties that affect the Group, together with the key mitigating activities in place to manage those risks.

This does not represent a comprehensive list of all of the risks that the Group faces but focuses on those that are currently considered to be most relevant. Please also refer to how we link the key risks to our strategic priorities, on page 26.

### Overview

Risk management is critical to the proper discharge of our corporate responsibilities and to the delivery of shareholder value. Risk is at the heart of everything we do as an organisation. Therefore, the process for identifying and assessing risks and opportunities for improvements is an integral and inseparable part of the management skills and processes which are at the core of our business.

There is a formally established Risk Committee in place which continues to meet on a regular basis to review both the key risks and emerging risks facing the business.

Key risks identified are reviewed and assessed by the Risk Committee in terms of their likelihood and impact and recorded on the Group's 'Key Risk Heat Map', in conjunction with associated agreed risk mitigation plans. The processes that are used to identify emerging risks and manage known risks are described in the Internal Control and Risk Management statement on pages 83 and 84.

Management support, involvement and enforcement is fundamental to the success of our risk management framework and members of the Executive Committee take responsibility for the management of the specific risks associated with their function. Our Group risk register clearly outlines the alignment of each key risk to an Executive Committee member and identifies an 'action owner', to ensure responsibilities are formally aligned.

There is a robust and transparent process in place to provide an appropriate level of direction and support in the identification, assessment and management of risks across all areas of the business which have the potential to seriously damage our financial position, our shareholder value, our responsibilities to our staff and guests, our reputation and our relationships with key stakeholders. The board has carried out an assessment of the Group's emerging and principal risks, resulting in the identification, assessment and management of risks across all areas of the business. The principal risks are subject to review each quarter by the Audit Committee, which is also attended by the Board.

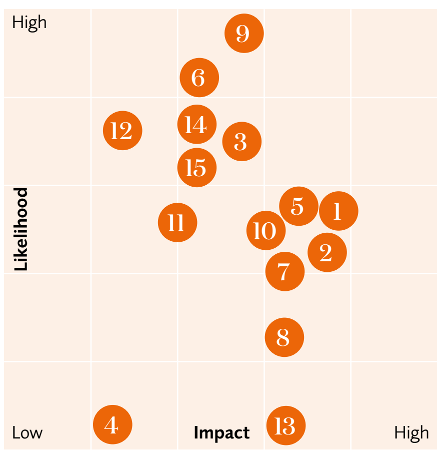
### Key risk heat map

The Key risk heat map below includes an indication of the likelihood of a 'risk event' occurring in relation to each of the principal risks and the expected magnitude of the impact of each such event.

*Key risk heat map*

**Risk event**

1. Borrowing covenants
2. Sales performance
3. People planning and development
4. Business continuity and crisis management
5. Information and cyber security
6. Wage cost inflation
7. Pension fund deficit
8. Failure to operate safely and legally
9. Cost of goods – price increases
10. Food supply chain safety
11. Health and lifestyle concerns
12. Environment and sustainability
13. Enforced Government closure/trading restrictions
14. Introduction of carbon taxes and levies
15. Increased severity of extreme weather events




*Our three lines of defence*

| | |
|---|---|
| 1st | • Executive Committee<br>• Leadership group/management<br>• Internal controls and processes<br>• Internal policies and procedures<br>• Training |
| 2nd | • Financial authority limits<br>• Risk management processes<br>• Audit Committee<br>• Risk Committee<br>• Health and Safety Team<br>• Technology specialists<br>• Legal support |
| 3rd | • Group Assurance<br>• Operational Practices Team |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **1. Borrowing covenants**<br><br>There are risks that borrowing covenants are breached because of circumstances such as:<br><br>ii. a change in the economic climate leading to reduced cash net inflows; or<br>ii. a material change in the valuation of the property portfolio.<br><br>**Risk Increasing**<br>Following the equity raise in March 2021, covenant waivers remain in place, which has meant the overall risk is reduced. However, this needs to be balanced against the ongoing costs headwinds. Therefore, the risk is assessed as 'Increasing'. | • The Group maintains sufficient headroom against the covenants. The finance team conducts daily cash forecasting with periodic reviews at the Treasury Committee (the role of which includes ensuring that the Board Treasury Policy is adhered to, monitoring its operation and agreeing appropriate strategies for recommendation to the Board).<br>• In addition, regular forecasting and testing of covenant compliance is performed.<br>• A detailed assessment of the mitigating risks is included in the long-term viability statement on page 52. | **Risk Increasing**<br>↗ |
| **2. Sales performance**<br><br>This risk falls into the below main categories:<br><br>**Sales:** There is a risk that declining sales, concerns around consumer confidence, increased personal debt levels, squeezes on disposable income and rising inflation individually, together or in combination, may adversely affect our market share and profitability, reducing headroom against securitisation tests.<br><br>**Consumer and market insight:** If the Group fails to manage and develop its existing (and new) brands in line with consumer needs and market trends due to failure to obtain or use sufficient insight in a timely manner, this may lead to a decline in revenues and profits.<br><br>**Pricing and market changes:** If price changes are not intelligently applied due to a lack of appreciation of market sensitivities and elasticities, this may result in decreased revenue and profit.<br><br>**Risk Stable**<br>Overall, this risk is stable due to improved sales performance following the lack of restrictions post the Covid-19 pandemic. | • Right operational and commercial team and structure in place. Brand alignment ensures the right research is done and is acted upon.<br>• Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place.<br>• Our Eat Drink Share panel provides robust, quick and cost-effective research. This is our own panel of 27,000 of the Group's guests, whom we can use for research purposes for quick and cost-effective insights.<br>• Primary research in partnership with brand and category teams.<br>• Working with suppliers to tap into their research.<br>• Each brand has its own pricing strategy.<br>• Price promotions are in line with the agreed strategy.<br>• Sales training for management.<br>• Consumer and insight-led innovation process and development for new brands.<br>• Reduce guest complaints by improving the local management of social media responses (e.g. Tripadvisor responses).<br>• Increased digital marketing activity including new loyalty apps.<br>• Increased activity from takeaway and delivery offerings.<br>• Online guest satisfaction survey to collect guest feedback. This feedback, together with the results of research studies, is monitored and evaluated by a dedicated guest insight team to ensure that the relevance to guests of the Group's brands is maintained.<br>• Our priority is to continue to protect our team members and guests, providing an eating-out experience which can be enjoyed. We have very strong health and safety practices already in place in our businesses, which we will enhance and evolve to tackle the challenges we face. We will be transparent with guests as to these measures such that they can trust in us and will clearly communicate our expectations of guests to comply with the measures put in place. | **Risk Stable**<br>↔ |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **3. People planning and development**<br><br>The Group has a strong guest focus and so it is important that it is able to attract, retain, develop and motivate the best people with the right capabilities throughout the organisation. There is a risk that, without the right people, our guest service levels would be affected.<br><br>The external recruitment activity over the previous year is challenging due to the lack of quality candidates being available. A further potential risk is the image of hospitality, given the recent pandemic impact.<br><br>Retention is high amongst our Director and 'head of department' populations which may lead to a perceived lack of progression routes and hence unwanted loss of good talent at lower levels.<br><br>Regarding retail labour, overall, there is a continued risk of a lack of quality of internal and external pipeline for key roles resulting in open vacancies or poor-quality appointments, leading to poor performance, reduced quality of service and loss of sales. There is a previous lack of consistent skills training affecting guest satisfaction and employee engagement and retention.<br><br>Kitchen Manager attraction and attrition continues to be the role with the highest concern, particularly given the declining non-UK applicants, decrease in internal progression and increase in turnover which is influencing the overall risk rating.<br><br>Wage pressure (over 25s) remains an issue, as competition for labour continues to increase.<br><br>**Risk Increasing**<br>There has been a loss of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk continues to increase. Following the UK's departure from the EU, restrictions on the movement of labour continue to have a material impact on both the cost of labour and access to talent. | • The Group makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully.<br>• Furthermore, an employee survey is conducted annually to establish employee satisfaction and engagement, and this is compared with other companies, as well as previous surveys. Where appropriate, changes in working practices are made in response to the findings of these surveys.<br>• Remuneration packages are benchmarked to ensure that they remain competitive, and a talent review process is used to provide structured succession planning. Please also refer to the Report on Directors' remuneration, on pages 89 to 106.<br>• The apprenticeship programme will also assist in mitigating against the increasing risk in relation to non-UK workers. Please also refer to Purpose in Action – Apprenticeships, on pages 04 and 05.<br>• A new talent management system has been sourced and is planned to be implemented in FY 2023. | **Risk Increasing**<br>↗<br><br>Specifically in London/South East |
| **4. Business continuity and crisis management**<br><br>The Group relies on its food and drink supply chain and the key IT systems underlying the business to serve its guests efficiently and effectively. Supply chain interruption, IT system failure or crises (such as terrorist activity or the threat of a further disease pandemic) might restrict sales or reduce operational effectiveness.<br><br>**Risk Stable**<br>Overall, the risk is stable. Staff have the resources and ability to work remotely rather than rely on access to the Retail Support Centre. | • The Group has in place crisis and continuity plans that are reviewed and refreshed regularly.<br>• New ways of working are in place for all Retail Support Centre staff, to ensure when the office is temporarily closed to employees, there is little or no impact to staff, given that all staff have the appropriate resources available to them in order to work remotely and in an efficient manner.<br>• We have assessed the risks associated with remote working and cyber security and are confident that those areas are suitably controlled. | **Risk Stable**<br>↔ |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **5. Information and cyber security**<br><br>There is a risk that inadequate disaster recovery plans and information security processes are in place to mitigate against a system outage, or failure to ensure appropriate back-up facilities (covering key business systems and the recovery of critical data) and loss of sensitive data.<br><br>Given the increase in the level and frequency of global cyber attacks, the likelihood of occurrence is therefore increasing, although current IT controls and monitoring tools are robust.<br><br>Risk of non-compliance with data protection laws is an increasing risk for the business to ensure full compliance remains up to date.<br><br>**Risk Decreasing**<br>Overall, the risk is decreasing due to the ongoing review and improvement of cyber security controls. However, the increased activity, information security and reliance on IT systems continues to be a key focus to ensure critical IT systems are kept secure and tested frequently and any vulnerabilities identified are addressed out efficiently. | • A detailed external review of cyber security processes is performed on a regular basis in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made (and continue to be made) to strengthen overall security cyber controls.<br>• In addition, controls include:<br>– The work carried out by the Group's cross-functional Information Security Steering Group.<br>– Group Assurance IT controls reviews.<br>– Implementation and revision of appropriate cyber security governance policies and procedures.<br>– Ongoing security awareness initiatives continue to be undertaken.<br>– A regular cycle of penetration testing.<br>– Increased focus on protecting the business against potential cyber attacks has resulted in the implementation of additional controls to mitigate against such risks.<br>– The effective implementation of a business-wide data protection compliance programme, including training of all relevant employees and contractors.<br>– Systems, processes and controls have been reviewed and updated to ensure compliance with data protection laws. | Risk Decreasing |
| **6. Wage cost inflation**<br><br>There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs.<br><br>**Risk Increasing**<br>Due to further increases set by Government, wage costs continue to increase. | • A detailed review of the risks associated with the National Living Wage has been completed. This review has been undertaken at a strategic level to ensure that the Group carefully manages productivity and efficiency across the estate.<br>• We have successfully implemented a time and attendance system to improve the management controls and reporting of staff hours. | Risk Increasing |
| **7. Pension fund deficit**<br><br>The material value of the pension fund deficit remains a risk.<br><br>**Risk Decreasing**<br>The Group has made significant additional contributions to reduce the funding deficit. | • The Group has made significant additional contributions to reduce the funding deficit. In September 2019, the Group reached agreement on the triennial valuation of the Group pension schemes as at 31 March 2019, with a funding shortfall of £293m (March 2016 valuation £451m shortfall).<br>• The Group will continue to pay cash contributions (of £49m p.a. indexed) to 2023, with an additional payment of £13m into escrow in 2024 should such further funding be required at that time.<br>• The Group reached agreement with the Pension Trustees in respect of non-payment of monthly deficit contributions from April to September 2020, with those payments now added to the end of the current agreement, thereby extending it by six months. Further agreement was also reached to delay payment of the January to March 2021 deficit contributions, which have now been paid alongside the April 2021 contributions, following the successful equity raise.<br>• In FY 2022, an Executive Committee pension scheme full buy-in was undertaken. | Risk Decreasing |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **8. Failure to operate safely and legally**<br><br>A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Group's or a brand's reputation.<br><br>**Risk Stable**<br>Overall, the risk continues to be stable. In particular, allergen-related incidents and near misses have stabilised. | • The Group maintains a robust programme of health and safety checks both within its restaurants, pubs and bars and throughout the supply chain.<br>• The dedicated Safety Assurance team use a number of technical partners including food technologists, microbiologists and allergen specialists to ensure that our food procedures are safe.<br>• Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained.<br>• If a business is identified as underperforming in terms of health and safety standards, it is immediately targeted for improvement and then reassessed.<br>• Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits.<br>• Comprehensive health and safety training programmes are in place. | **Risk Stable**<br>↔ |
| **9. Cost of goods – price increases**<br><br>**Food:** The cost of food for resale increases due to changes in demand, food legislation, exchange rates and/or production costs and uncertainty of supply, leading to decreased profits.<br><br>**Drinks:** The cost of drinks for resale increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits.<br><br>**Utility costs:** A number of external factors, including the result of the war in Ukraine, has lead to an increased cost pressure on utility costs, for the Group.<br><br>**Goods not for resale:** Increases in the cost of goods not for resale and utilities costs as a result of increases in global demand and uncertainty of supply in producing nations can have a significant impact on the cost base, consequently impacting margins.<br><br>**Risk Increasing**<br>The overall risk of cost inflation is increasing given a number of factors, including:<br><br>• Rising UK inflation<br>• Rising utility costs<br>• Exchange rate movements<br>• Labour shortages<br>• Raw material availability issues<br>• The impact of the war in Ukraine<br>• Higher haulage and shipping costs<br>• Poor harvests<br><br>However, mitigation is sought where possible through a change of supplier, products, specification, range and an ongoing review and monitoring of energy cost management. | In order to reduce the overall impact of costs increases, the Group leverages its scale to drive competitive cost advantage and collaborates with suppliers to increase efficiencies in the supply chain. The fragmented nature of the food supply industry in the world commodity markets gives the Group the opportunity to source products from a number of alternative suppliers in order to drive down cost. Consideration has been given to potential areas such as supply chain risk (e.g. customs controls on imports), labour risk and economic disruption. Key mitigating activities for food and drink are detailed below:<br><br>Food:<br>• A food procurement strategy is in place.<br>• Full reviews are carried out on key categories to ensure optimum value is achieved in each category.<br>• A full range review was completed in FY 2022 ensuring the correct number of products and suppliers. This is regularly reviewed.<br>• Regular reporting of current and projected inflation.<br>• Good relationships with key suppliers.<br><br>Drinks:<br>• Each drinks category has a clearly defined strategic sourcing plan to ensure the Group's scale is leveraged, the supply base is rationalised, and consumer needs are met.<br>• Good relationships with key suppliers.<br>• Supplier collaboration programmes are in place.<br><br>Energy:<br>• Ongoing review of energy purchasing policy (covering short-term and medium-term energy purchasing).<br>• The Group currently spot purchases its energy requirements and also enters into short and medium-term energy hedges as part of the overall energy purchasing strategy.<br>• Weekly Energy Cost Price & Forecast Reports are produced and monitored.<br>• Trial of solar panels to reduce reliance on the grid.<br>• Energy Ambassadors complete energy audits in every business. Please also refer to Purpose in Action – Sustainability on page 08. | **Risk Increasing**<br>↗ |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **10. Food supply chain safety**<br><br>Malicious or accidental contamination in the supply chain could lead to food goods for resale being unfit for human consumption or being dangerous to consume. This could lead to restrictions in supply which in turn cause an increase in cost of goods for resale and reduced sales due to consumer fears and physical harm to guests and/or employees.<br><br>**Risk Stable**<br>Risks facing the food supply chain safety are regarded as stable. | • The Group has a Safety Assurance team and uses a number of technical partners including food technologists, food safety experts, microbiologists, allergy consultants, trading standards specialists and nutritionists.<br>• The Group uses a robust system of detailed product specifications.<br>• All food products are risk rated using standard industry definitions and assessment of the way the products are used in the Group's kitchens. Suppliers are then risk rated according to their products.<br>• Each food supplier is audited at least once per year in respect of safety and additionally in response to any serious food safety complaint or incident.<br>• A robust response has been taken to manage allergens and the associated data within the menu cycle, coupled with a continuous review to ensure the controls in place remain appropriate. | **Risk Stable**<br>↔ |
| **11. Health and lifestyle concerns**<br><br>Failure to respond to changing consumer expectations in relation to health and lifestyle choices and our responsibility to facilitate those.<br><br>**Risk Increasing**<br>There is an increasing level of focus from media and Government on health and obesity issues. This heightened consumer awareness has increased consumer awareness of the health implications of their eating and drinking choices, and it is important that we continue to evolve our offers to facilitate consumers to make informed decisions. Failure to meet these expectations could have both a financial and reputational impact on the business. Therefore, this risk is increasing. | • We monitor changing behaviour in relation to health and lifestyle issues and adapt our brands to appeal to changing needs ensuring that the brands remain relevant and competitive.<br>• We have set targets for ongoing sugar and salt reduction.<br>• A plan is in place to provide nutritional information for all brands to allow customers to make informed decisions. Please also refer to Purpose in Action – Sustainability on page 08. | **Risk Increasing**<br>↗ |
| **12. Environment and sustainability**<br><br>Climate change, biodiversity depletion and environmental pollution present a risk to our ability to source products, with food being particularly at risk.<br><br>**Risk Increasing**<br>The impact of extreme and longer-term shifts in weather patterns, natural resource depletion and other effects of climate change could impact the business both financially and reputationally. These factors could disrupt our supply chain and the ability to source products due to reduced availability. Regulatory action to manage climate change could result in the introduction of additional taxes or restrictions being imposed. The business also has a responsibility to continually aim to reduce its usage of natural resources and its negative impact on the climate. Therefore, this risk continues to increase. | • We have set challenging targets in key areas such as greenhouse gas emissions, food waste, recycling and use of plastics (see pages 32 and 33).<br>• We have completed an exercise to determine our baseline greenhouse gas emissions from which we have developed a plan to deliver our ambitions of reducing emissions by 25% by 2030, which has been approved by the Board. Please also refer to our sustainability targets on page 31.<br>• We are working with the World Resources Institute on their Cool Food Pledge programme to reduce the emissions of food supply chain links, which is a significant contributor to emissions globally.<br>• All direct palm oil purchases continue to be sourced from Rainforest Alliance approved suppliers. Please also refer to our Value creation story, on pages 38 to 41.<br>• We are working with industry collaboration groups to develop a roadmap to sourcing sustainable soy in our supply chain.<br>• We are developing initiatives to reduce our consumption of natural resources, with an electricity workstream live in the business, and gas and water in the planning phases. | **Risk Increasing**<br>↗ |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **13. Enforced Government closure/trading restrictions**<br><br>There is a risk that the business could be impacted by an enforced Government closure or imposed severe trading restrictions, of part or the whole of the estate, for example: regional and/or national and/or global pandemic, chemical and/or terrorist activity.<br><br>A global pandemic may have a negative impact on the Group's operating and financial performance and liquidity. An outbreak of a global virus may cause severe disruptions in the global economy which could adversely affect the Group's business or operations, as well as the business or operations of third parties with whom the Group conducts business.<br><br>**Risk Stable**<br>The frequency and nature of these risks arising are unpredictable, as evidenced during the Covid-19 pandemic. However, given that Government trading restrictions have been lifted, the associated risks to the business have stabilised. | • Contingency plans are in place to review and respond to enforced Government actions and/or severe business disruption or trading restrictions. These should be subject to a formal review.<br>• Business opening and closure processes have been updated.<br>• Strong supply chain relationships are maintained to assist in the event of cancelling and/or returning stock orders.<br>• Robust processes are in place to manage Government furlough schemes.<br>• The Group, and in particular the Safety and Security Team, is able to adapt quickly and respond to a change in operational and functional processes, as a result of a pandemic and/or business closures.<br>• Established communication cascade and mechanisms are in place for employees, guests and suppliers.<br>• IT infrastructure, hardware, systems and employee support is in place to maintain remote working.<br>• Key financial controls have been reviewed, assessed and updated to ensure they continue to be operated in the event of limited and/or no access to either the Retail Support Centre or businesses.<br>• A high-level review of lessons learned, following the Covid-19 pandemic, has been undertaken to inform the required changes to business planning and operating procedures. | **Risk Stable**<br>⟷ |
| **14. Introduction of carbon taxes and levies**<br><br>This risk represents the impact on operating costs of the business both directly through taxation and indirectly through higher input costs which would result from the introduction of taxation and levies attributed to greenhouse gas emissions.<br><br>**Risk Stable**<br>Qualitative assessment has identified this risk as both high in impact and likelihood over the short to medium term. Whilst the risk is currently assessed as stable, the introduction of a form of carbon taxation is likely to be introduced as pressure mounts for progress to be made against the Government ambition to achieve Net Zero by 2050. | • The Group is a member of UK Hospitality Sustainability Committee which enables us to have foresight over potential policy changes impacting the organisation.<br>• The Group has developed a Net Zero strategy with a target date of 2040. The strategy has been developed in partnership with an independent third party and will be submitted for Science Based Targets initiative approval during FY 2023. Please also refer to our sustainability targets, outlined on page 31.<br>• We have a number of initiatives underway designed to reduce our emissions in line with our Net Zero roadmap. The detailed plan for reduction will help to mitigate an element of potential cost, and a target date ahead of Government ambition will help to position the organisation ahead of the market average. Please also refer to our Task Force on Climate-related Financial Disclosures, on pages 28 to 31. | **Risk Stable**<br>⟷ |

| *Risk category and description* | *High-level controls/mitigating activities* | *Movement* |
|---|---|---|
| **15. Increased severity of extreme weather events**<br><br>This acute physical risk represents the risk to both revenue and the supply chain of increased severe events. Revenue would be impacted through the interruption to trade caused by both extremely hot weather and adverse weather such as rain and snow, and possible site closure as a result of flooding. In addition, the availability of products in the supply chain, in particular agricultural produce, could be impacted by severe weather having an effect on product availability and input prices.<br><br>**Risk Stable**<br>Following a qualitative assessment, which included a high-level review of previous interruption to trade resulting from extreme weather (as well as scientific forecasts as to the likely increase in extreme weather events), the overall risk is assessed as stable. | • The weather has a high level of impact on trading levels across the Group and therefore monitoring weather forecasts in relation to expected trading levels is a normal part of the financial planning of the Group.<br>• This monitoring activity will enable the Group to identify when patterns of increased instances of extreme weather events begin to develop.<br>• In relation to site closure due to damage to buildings, such as during flooding, we have insurance in place to recover the lost trade and required repairs. Our experience during closure has meant that we have developed strategies to close sites at short notice, such that in the instance of extreme weather significantly impacting trade we could close sites in order to mitigate some of the financial losses which we would be exposed to.<br>• To manage the risk associated with our supply chain, we monitor and communicate with our suppliers closely giving us foresight over potential supply issues. We also have sufficient breadth of products and dishes across our brands such that supply issues with one product could be mitigated through switching to a substitute. Please also refer to our Task Force on Climate-related Financial Disclosures, on pages 28 to 31. | **Risk Stable**<br>⟷ |

# Compliance statements

## Corporate Viability Disclosure

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have undertaken an assessment, including sensitivity analysis, of the prospects of the Group for a period of three years to September 2025.

### Assessment period

Three years continues to be adopted as an appropriate period of assessment as it aligns with the Group's planning horizon in a fast moving market subject to changing consumer tastes in addition to economic and political uncertainties, and is supported by three-year forecasts as approved by the Board. This period also aligns with the triennial process for pensions valuations, a consideration in respect of future cash flows. Beyond this period, performance is impacted by global macroeconomic and other considerations which become increasingly difficult to predict. As set out below, this is particularly so at the current time.

### Assessment of prospects

The Group's financial planning process comprises a detailed forecast for the next financial year, together with a projection for the following two financial years.

The Group's strategy seeks to provide long-term direction to protect the viability of the business model given prevailing and evolving market and economic conditions. The Directors' assessment of longer-term prospects has been made taking account of the current and expected future financial position and the principal risks and uncertainties, as detailed within the Annual Report.

At the current time uncertainty facing the business remains particularly high due both to challenging and potentially volatile conditions as a result of the extended impact of both Covid-19 and Brexit, and to global political developments, supply chain disruptions and uncertain government policy, and to increasing cost headwinds in areas such as energy, wages and food costs. These are exacerbated by concerns over consumer spending power in the face of falling real wages. Longer-term risks are further identified around evolving consumer demands and tastes and the economic and political environment.

Key factors considered in the assessment of the Group's prospects are a strong market position with a broad range of brands and offers trading from a well-positioned and largely freehold estate, supported by the resumption of capital investment focused on premiumisation of offers and an appropriate remodel cycle, all anticipated to contribute to outperformance against the wider market.

### Assessment of viability

The current funding arrangements of the Group consist of £1.4bn of long-term securitised debt which amortises on a scheduled profile over the next 14 years. Securitisation covenants are tested quarterly, both on an annual and a half year basis, although as set out in the note to the financial statements on going concern, a refinancing was undertaken during the prior reporting period, resulting in a number of waivers and amendments through to January 2023 being obtained. Unsecured committed facilities of £150m were in place at the year end, having been extended during the refinancing and equity Open Offer. These facilities expire within the three-year term of this assessment, in February 2024.

Following the end of the third national lockdown in 2021 sales have returned to growth above pre-pandemic levels such that the principal short-term risks facing the business are now assessed to be the maintaining and generating of further growth on this level of demand, in addition to increased cost inflation notably in energy, wage rates and utilities. The Group has reviewed a number of forecast scenarios and sensitivities around these risks, including additional stress testing that has been carried out on the Group's ability to continue in operation under unfavourable operating conditions. In making this assessment the Group has taken the view that there will be no material further adverse impact of Covid-19 (or any other pandemic) such that sales will continue to grow year-on-year. In particular it is assumed that no further mandated closure or trading restrictions will be reintroduced. Through the assessment period, the Group is forecasting sales growth against last year remaining at close to current levels. Further, it assumes that on a general basis the current very high levels of cost inflation will start to abate beyond FY 2023 and that energy markets and costs in particular will start to revert to closer to historical levels in absolute terms through FY 2024 leading to a recovery in profitability over the assessment period.

The Group's three-year plan takes account of these risks, in addition to the prevailing economic outlook and capital allocation decisions, alongside limited mitigating activity such as improved operational efficiencies (stock and labour management and energy saving initiatives) to manage these costs. In the base case scenario the Group remains within solvency covenant limits and has access to sufficient liquidity to meet its outgoings. It is noted that there is a requirement to refinance the unsecured facilities and potentially increase the amount in February 2024. It is considered that this can be accommodated within the debt capacity of the business given future anticipated recovery in profit and the strength of the creditor relationships exhibited in the refinancing exercises during FY 2020 and FY 2021, noting also that each year a further c. £120m of securitised debt is expected to have been paid down. The resilience of this base case plan is then assessed through the application of forecast analysis, focused in particular on growth of demand and high levels of input cost inflation during the current financial year as well as on a longer-term basis. Sensitivities of the following risks described in the Annual Report have also been applied individually to the base plan. In all scenarios the Group remains profitable but with the following impact on liquidity and solvency based on financial covenants (Risk event 1) on both secured debt and unsecured facilities:

- Declining Sales Performance (Risk event 2): Lower like-for-like sales growth rate in FY 2023, FY 2024 and FY 2025 of approximately 2% pa, with the outcome that covenants would be breached in the second half of FY 2023 and beyond.
- Cost of Goods Price Increases (Risk event 9): Increase in direct Cost of Goods (Drink and Food) resulting in margins 2 ppts lower in the second half of FY 2023, and 0.5 ppts lower through FY 2024 and FY 2025, with the outcome that covenants would be breached in the second half of FY 2023 and beyond.
- Increased utilities cost (Risk event 9): additional £20m costs in the (uncapped) second half of FY 2023, with reductions delayed until FY 2025, with the outcome that covenants would be breached in the second half of FY 2023 and beyond.
- Increased Wage Cost Inflation (Risk event 6): 1.5% increase in statutory NLW wage rate in FY 2023, with no forecast covenant breaches but limited, or no, headroom.

As noted above, in the base case there is a requirement to refinance unsecured facilities before February 2024 and potentially increase the amount. With Declining Sales Performance and Cost of Goods Price Increases this would be required earlier, in FY 2023, as it would in a scenario representing an aggregation of all downside sensitivities. In all other individual sensitivities refinancing would not have to be undertaken earlier than in FY 2024.

### Viability statement

The Directors have concluded, based upon the extent of the financial planning assessment, sensitivity analysis, potential mitigating actions and current financial position that there is a reasonable expectation that the Group will have access to sufficient resources to continue in operation and meet all its liabilities as they fall due over the three-year period to September 2025. However, due to the prevailing high level of unpredictability and uncertainty concerning both future demand and the persistence of high levels of cost inflation, the Directors do not believe that the possibility of an unwaived breach of covenant or shortfall in liquidity over the three-year period is remote. Under such a scenario the Directors believe that waivers should be obtained from main stakeholders but this is not fully within the Group's control. Given this, and the material uncertainty highlighted in the going concern assessment, the viability of the business over the three-year assessment period remains uncertain.

### Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the report. This can be found as follows:

- Business model on pages 34 to 37.
- Information regarding the following matters can be found on the following pages:
  - Environmental matters on pages 32, 33, 40, and 41;
  - Employees on page 39;
  - Social matters on pages 38 to 41;
  - Respect for human rights on pages 68, 81 and 82;
  - Anti-corruption and anti-bribery matters on pages 81 and 82.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 44 to 51 including a description of the business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and a description of how the principal risks are managed.
- All key performance indicators of the Group, including those non-financial indicators, are on pages 42 and 43.
- The Financial review section on pages 55 to 58 includes, where appropriate, references to, and additional explanations of, amounts included in the accounts.

### Section 172 Companies Act statement

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have given regard, amongst other matters, to the following considerations in the decisions taken during the financial period ended 24 September 2022:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, guests and others;
- the impact of the Company's operations on the community and environment;
- the desirability for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board has a duty under Section 172 Companies Act 2006 to promote the success of the Company and, in doing so, must take account of the effect on other stakeholders of how it manages the business of the Company, whether these stakeholders are from within the Company, in its group or outside the Company and its group. Throughout the year the Board has kept in mind these responsibilities as it has supervised and monitored the business activities and prospects of the Company and as it has considered, and, where appropriate, made decisions relating to strategic aspects of the Company's affairs.

In addition, the 2018 UK Corporate Governance Code specifically requires that the Board should understand the views of the Company's key stakeholders (including employees, suppliers, customers and others) and keep stakeholder engagement mechanisms under review so they remain effective. The 2018 Code also recommends that there should be regular reporting as to how the Board has complied with this engagement approach in its decision-making processes and how the interests of different shareholders have been considered.

In carrying out these functions, the Board had regard to those stakeholders which it had identified as being of significant importance. These are the Company's shareholders, those employees of the Mitchells & Butlers Group who were likely to be affected by the activities of the Company (including their job security and entitlements in terms of pay, pensions and other benefits), guests who purchase goods and services provided by the Company, suppliers to the Company, whether they are external to the Mitchells & Butlers Group or within that group, governmental authorities such as HMRC and regulatory bodies, the Trustees of the Group's pension schemes, providers of finance to the Group including its banks and bond holders, real estate property counterparties (whether as landlords or tenants) and those specific entities or individuals who are likely to be affected by the outcome of the relevant matter falling for consideration on a case-by-case basis.

There is a robust and transparent process in place to provide an appropriate level of direction and support in the identification, assessment and management of risks across all areas of the business which have the potential to seriously damage our financial position, our shareholder value, our responsibilities to our staff and guests, our reputation and our relationships with key stakeholders. Established communication cascade and mechanisms are in place for employees, suppliers and guests: engagement with employees is discussed on page 67 of the Directors' Report, which sets out the various platforms for employee communications, facilitated by Dave Coplin, a Non-Executive Director who acts as the 'employee voice'; engagement with key, critical suppliers is addressed on page 75 of the Corporate Governance Statement which describes the supplier tiering process; and engagement with guests is discussed on page 101 of the Report on Directors' remuneration which describes the mechanisms for providing guest feedback.

The Company's culture is embodied in a set of PRIDE values of Passion, Respect, Innovation, Drive and Engagement which underpin its key priorities of People, Practices, Profits and Guests. The Board observes these PRIDE values in discharging its everyday responsibilities in order to ensure that decisions taken are in line with the Company's values and objectives. High standards of business conduct are expected, in furtherance of which the Board has implemented a Code of Ethics, which is fully described on pages 81 and 82 of the Corporate Governance Statement, and a declaration of compliance with the Modern Slavery Act 2015 (including a Supplier Code of Conduct) is dealt with on page 68 of the Directors' Report. Appropriate scrutiny of the environmental impact of the Group's activities is included in the Sustainability section of the Strategic Report on pages 32 and 33.

Not all of those stakeholders' interests fall for consideration in each set of circumstances which the Board has to consider. However, as and when a particular matter falls for review by the Board, it first seeks to identify those stakeholders which are likely to be impacted by the decision of the Board, and then the Board discusses the respective interests of those stakeholders as well as the consistency (or otherwise) of the relevant proposal with the Board's existing, or any proposed change(s) to its, strategic plan.

Major matters considered by the Board during the year related primarily to the effect on the Group's business and its guests, employees and suppliers of the continued impact of the Covid-19 pandemic, including the emergence of the 'Omicron' variant of the virus, and the implications of rising cost inflation notably on food and utility costs driven by macro economic challenges and geopolitical issues including the conflict in Ukraine. There were also similar considerations made by the Board in relation to the Group's German business and the impact of the continuing Covid-19 pandemic and costs pressures on its operations, creditors, employees, regulatory bodies and other stakeholders, including regional and federal German Government authorities.

In considering the implications of the Covid-19 pandemic and the other external factors referred to above, the Board looked not only at the position and prospects of the Company, but also took into consideration the wider Mitchells & Butlers Group as a whole, in relation to the financing arrangements and the need to comply with the Group's obligations of its securitisation arrangements and other financial arrangements.

Having identified the relevant stakeholders and their interests in relation to specific matters or particular circumstances, the Board then assessed the relevant weighting of those interests in considering and eventually reaching its conclusions. This was of particular importance in relation to its decisions relating to the ongoing effects of the Covid-19 pandemic, which included the emergence of the 'Omicron' variant of the virus, leading to an adverse impact over the important festive period; the effect on the Group's operations and its guests, employees and suppliers as the rate of VAT on food and non-alcoholic drink reverted to its full rate of 20%; and cost inflation headwinds, notably in utilities, wages and food as a result of developments across the world, including the conflict in Ukraine.

In reaching its decisions, the Board was mindful of the need to seek to preserve the integrity of the Company's business so that it could trade successfully again after the impact of the Covid-19 pandemic had passed but that it would need to allocate its resources in such a way as to ensure creditors' interests and the interests of other stakeholders such as employees and guests were not prejudiced. This led to a need for allocation of cash resources in a prudent and carefully controlled way whilst ensuring that, over time, creditors received payment of amounts properly due.

Board papers set out the rationale for the proposals and the relevant decisions were made after discussion amongst the Board members with appropriate legal, accounting, HR and treasury input. The processes implemented by the Board included regular meetings to consider key developments as well as the provision, refreshed during the financial year, of training to Directors in relation to their responsibilities as directors of a limited company, including the responsibilities under Section 172 Companies Act 2006.

Specific consideration was given in the decision-making processes implemented by the Board to how the manner in which the Company operated, and the specific proposals it was asked to consider, aligned to its strategic goals as described on pages 26 and 27 and its agreed purpose as referred to on page 03.

The Board also confirmed that, in discharging its responsibilities for management, supervision and control of the Company's business and its affairs, it would seek to align to the Mitchells & Butlers Group PRIDE Values of Passion, Respect, Innovation, Drive and Engagement as set out at page 35 of this Annual Report.

Throughout this Annual Report we provide examples of how we take these considerations into account. The Board values the importance of effective stakeholder engagement and believes that stakeholders' views should be considered in its decision-making. Details of how we engage with various stakeholders can be found on pages 38 to 41.

# Financial review

*Our financial and operating performance*

*"On a statutory basis, profit before tax for the year was £8m (FY 2021 loss £42m), on sales of £2,208m (FY 2021 £1,065m)."*

*Tim Jones*
*Chief Financial Officer*

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

At the end of the period, the total estate comprised 1,718 sites in the UK and Germany of which 1,636 are directly managed.

## Revenue

Total revenue of £2,208m (FY 2021 £1,065m) reflects a period of continuous trading, albeit disrupted by the Omicron variant in the first quarter, as compared to the prior year which included substantial closures and restrictions relating to Covid-19. Sales figures in the first half of the year include the benefit of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales to 12.5%.

Unless otherwise noted, sales comparisons below are on a three-year basis, to the same period in FY 2019, being the last full pre-Covid-19 financial year.

Like-for-like sales[a] for the year increased by 1.1%, comprising an increase in like-for-like food sales[a] of 5.2% and a decrease in like-for-like drink sales[a] of (4.1)%.

| | Statutory | | Adjusted[a] | |
|---|---|---|---|---|
| | **FY 2022 £m** | FY 2021 £m | **FY 2022 £m** | FY 2021 £m |
| Revenue | **2,208** | 1,065 | **2,208** | 1,065 |
| Operating profit | **124** | 81 | **240** | 29 |
| Profit/(loss) before tax | **8** | (42) | **124** | (94) |
| Earnings/(loss) per share | **2.2p** | (11.5)p | **18.0p** | (13.6)p |
| Operating margin | **5.6%** | 7.6% | **10.9%** | 2.7% |

### Like-for-like sales[a] growth/(decline) against FY 2019:

| | Weeks 1–15 Q1 | Weeks 16–28 Q2 | Weeks 29–42 Q3 | Weeks 43–52 Q4 | **Weeks 1–52** |
|---|---|---|---|---|---|
| Food | 5.2% | 8.9% | 2.9% | 4.1% | **5.2%** |
| Drink | (9.1)% | (4.2)% | (1.3)% | (1.0)% | **(4.1)%** |
| **Total** | (1.5)% | 3.8% | 0.9% | 1.5% | **1.1%** |
| | | | | | |
| **Total excl. VAT benefit** | (5.5)% | 0.2% | 0.9% | 1.5% | **(0.9)%** |

Sales growth in food was driven by premiumisation and other increases in spend per head, with the strongest performances in our premium, food-led brands. Volumes for both food and drink were in double-digit decline against FY 2019.

For the ten weeks since the period end like-for-like sales[a] against FY 2019 have increased by 9.2%.

Moving forward it will become more meaningful to use FY 2022 as a primary comparator for like-for-like sales[a]. On this basis, for the ten weeks since the period end, like-for-like sales[a] have increased by 6.5%, comprising an increase in like-for-like food sales[a] of 1.9% and like-for-like drink sales[a] growth of 12.1%, with both in volume growth. Total sales in this period grew by 7.3%.

### Separately disclosed items

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

A £117m reduction in value is recognised relating to valuation and impairment of properties, comprising a £86m impairment arising from the revaluation of freehold and long leasehold sites, a £9m impairment of short leasehold and unlicensed properties and a £22m impairment of right-of-use assets. The £22m tax credit relates to these impairments.

There was a £1m net profit arising on property disposals in the period.

### Operating profit and margins[a]

Adjusted operating profit[a] for the year was £240m (FY 2021 £29m), a substantial increase on FY 2021 which was significantly impacted by Covid-19 closures and restrictions.

Adjusted operating margin of 10.9% was 8.2 ppts higher than last year, again due mainly to significant periods of closure and other trading restrictions. Statutory operating margin of 5.6% was 2.0 ppts lower than last year due to the impact of separately disclosed property impairments.

Inflationary cost pressures presented an increasing challenge both to our business and to the hospitality sector as a whole, especially through the second half of the year. Inflationary costs were initially concentrated in the areas of energy, wages and food costs but progressively became evident throughout most of the supply chain. Inflationary cost headwinds against FY 2019 totalled c. £220m during FY 2022, over the three year period, with energy cost increases contributing c. £70m, after consumption savings.

We continue to work very hard to mitigate as much of the impact of these cost increases as we can, both through driving sales growth and through identifying and implementing further cost efficiencies, all executed under our Ignite programme of work. Looking forward, we anticipate an aggregate cost headwind in the region of 10-12% on our cost base of c. £1.8 billion this year before mitigation, with operating margins remaining lower than pre-Covid levels in the medium term.

### Government Support

Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent enforced closure of the business, M&B received a number of different areas of support from both local and central Government in the UK and in Germany. During the year, Government support was received in the form of Local Authority Grants £3m (FY 2021 £11m), business rates relief £5m (FY 2021 £75m), grants for loss of profits in Germany £1m (FY 2021 £14m) and apprenticeship incentives £1m (FY 2021 £nil).

In the prior period, £210m of support was received in relation to the UK Coronavirus Job Retention Scheme ('CJRS') and a further £9m of Government assistance for wages and salaries in Germany (Kurzarbeit).

The Group also benefited from a reduction in the rate of VAT from 20% to 5% on non-alcoholic sales which was introduced by the UK Government on 15 July 2020 and continued until 30 September 2021. Following this a rate of 12.5% applied for the subsequent six months until 31 March 2022. The estimated impact of this on food and drink revenue in FY 2022 is £43m (FY 2021 £81m).

### Interest

Net finance costs of £114m for the year were £6m lower than the same period last year, with annual amortisation reducing the value of securitised debt.

The net pensions finance charge was £2m (FY 2021 £3m). The net pensions charge for next year is expected to remain at the same level.

### Earnings per share

Basic earnings per share, after the separately disclosed items described above, were 2.2p (FY 2021 loss (11.5)p), adjusted earnings per share[a] were 18.0p (FY 2021 loss (13.6)p).

The basic weighted average number of shares in the period was 595m and the total number of shares issued at the balance sheet date was 597m.

## Cash flow

| | FY 2022 £m | FY 2021 £m |
|---|---|---|
| EBITDA before movements in the valuation of the property portfolio | **374** | 182 |
| Non-cash share-based payment and pension costs and other | **6** | 13 |
| **Operating cash flow before movements in working capital and additional pension contributions** | **380** | 195 |
| Working capital movement | **19** | 7 |
| Pension deficit contributions | **(44)** | (52) |
| **Cash flow from operations** | **355** | 150 |
| Capital expenditure | **(122)** | (33) |
| Net finance lease principal payments | **(45)** | (41) |
| Interest on lease liabilities | **(16)** | (21) |
| Net interest paid | **(99)** | (104) |
| Tax | **(2)** | 1 |
| Issue and purchase of shares | **(1)** | 341 |
| Other | **1** | – |
| Repayment under liquidity facility | **–** | (9) |
| Repayment of term loan | **–** | (100) |
| Repayment of revolving credit facilities | **–** | (10) |
| **Net cash flow before bond amortisation** | **71** | 174 |
| Mandatory bond amortisation | **(110)** | (104) |
| **Net cash flow** | **(39)** | 70 |

The business generated £374m of EBITDA before movements in the valuation of the property portfolio. This is notably higher than last year due to FY 2021 being significantly impacted by Covid-19 closures and restrictions.

Capital expenditure has increased in FY 2022 as the capital programme resumed following reduced activity in the prior period due to the cash management strategy adopted in response to Covid-19 restrictions.

In FY 2021, share issue proceeds reflect the equity raise of £351m less £9m transaction fees and £1m purchase of own shares.

Before mandatory bond amortisation, cash inflow was £71m (FY 2021 £174m). After mandatory bond amortisation, cash outflow was £39m (FY 2021 inflow of £70m).

## Capital expenditure

Capital expenditure of £122m (FY 2021 £33m) comprises £117m from the purchase of property, plant and equipment and £5m in relation to the purchase of intangible assets.

Capital expenditure remains a priority for the business but was below targeted levels due primarily to global supply chain disruption and delays in obtaining planning consent, resulting in reduced project completions. We expect capital expenditure for FY 2023 to increase further to approximately £200m.

| | FY 2022 | | FY 2021 | |
|---|---|---|---|---|
| | £m | Number | £m | Number |
| **Maintenance and infrastructure** | **39** | | 14 | |
| Remodels – refurbishment | **60** | **155** | 9 | 21 |
| Remodels – expansionary | **2** | **5** | 1 | 2 |
| Conversions | **6** | **6** | 2 | 5 |
| Acquisitions – freehold | **14** | **3** | 7 | 2 |
| Acquisitions – leasehold | **1** | **1** | | |
| **Total return generating capital expenditure** | **83** | **170** | 19 | 30 |
| **Total capital expenditure** | **122** | | 33 | |

The three freehold acquisitions represent the purchase of three properties previously held as leasehold.

## Property

In line with our property valuation policy a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has undertaken an impairment review on short leasehold and unlicensed properties. The overall property portfolio valuation of c. £4bn has decreased by £282m (FY 2021 increase of £196m). This reflects £95m impairment separately disclosed in the income statement and a £187m decrease in the revaluation reserve. In addition to this, there was a £22m impairment of right-of-use assets, separately disclosed in the income statement.

## Pensions

During the period, the trustees of the M&B Executive Pension Plan ('MABEPP'), working closely with the Company, have successfully completed a full scheme buy-in with Legal and General Assurance Society Limited. This transaction eliminates substantially all remaining risk in this scheme within the level of existing committed contributions. The MABEPP makes up approximately 20% of the Company's total pension obligations, with the vast majority of the balance being in the M&B Pension Plan ('MABPP').

The latest triennial pension valuations of both schemes are assessed as at 31 March 2022 (2019 £293m combined deficit). MABEPP having already achieved buy-in, requires only limited future funding to cover its running costs and any data true ups. Preliminary results for MABPP show a significant improvement in the actuarial funding position. Once the valuations are agreed, the future contributions to be made by the Company until 2023 should remain unchanged, but with all monies now being made into blocked escrow accounts.

## Net debt[a] and facilities

Following the adoption of IFRS 16 in FY 2020, leases are now included in net debt[a]. Net debt[a] at the period end was £1,679m, comprised of £1,198m non-lease liabilities and lease liabilities of £481m (FY 2021 £1,783m comprised of £1,270m non-lease liabilities and lease liabilities of £513m).

In addition to the securitisation, the Group has a £150 million unsecured facility expiring in February 2024. Further details of existing debt arrangements and an analysis of net debt[a] can be found in Notes 4.1 and 4.4 to the financial statements and at www.mbplc.com/infocentre/debtinformation/.

## Going concern

After considering forecasts, sensitivities and mitigating actions available to management and having regard to risks and uncertainties, the Directors have a reasonable expectation that the Group has adequate resources to continue to operate within its borrowing facilities and covenants for a period of at least 12 months from the date of signing the financial statements. However, given the prevailing high level of unpredictability and uncertainty concerning both sales and, particularly, cost inflation, the Directors have concluded that a material uncertainty exists which may cast significant doubt over the Group's ability to trade as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Accordingly, the financial statements continue to be prepared on the going concern basis but with material uncertainty arising from the impact of macroeconomic factors on the Group's compliance with financial covenants and its liquidity. Full details are included in note 1.

**Tim Jones**
Chief Financial Officer
6 December 2022

a. The Directors use a number of alternative performance measures ('APMs') that are considered critical to aid understanding of the Group's performance. Key measures are explained on pages 177 to 179 of this report.