



**Annual Report
and Accounts 2022**

About us

We run many of the UK's most beautiful and iconic pubs and restaurants. In fact, we are one of the leading pub and restaurant companies in the UK with 1,636 managed businesses.

Our scale is impressive (see 'Scale and geographical diversity' on pages 22 and 23). Since 1898, the Group has been at the forefront of UK drinking and eating out. In FY 2022 we served 99 million meals, as well as some 316 million drinks. We employ over 46,000^a people in pubs, bars and restaurants that are located across the length and breadth of the UK and in Germany, with over 82% of the UK population within five miles of one of our sites.

We remain focused on our three priority areas of building a more balanced business, instilling a commercial culture, and driving an innovation agenda, whilst pursuing our purpose of being the host of life's memorable moments, bringing people and communities together through great experiences.

Financial highlights

£2,208m

Revenue

£8m


Profit before tax^b

£240m

Adjusted operating profit^c

2.2p

Basic earnings per share^c

 **Financial review**
Go to page 55

Environmental, social and governance targets

Net zero

Greenhouse gas emissions by FY 2040 (Scope 1, 2 and 3)

Zero

Operational waste to landfill by FY 2030

50%

Reduction in food waste by FY 2030

 **ESG review**
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a. As at 24 September 2022.

b. Includes separately disclosed items.

c. 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.

A photograph of a woman with brown hair, wearing a yellow floral patterned top and a watch, smiling warmly at a man in a light blue polo shirt. They are seated at a wooden bar counter. The background is softly blurred, showing warm interior lighting and what appears to be a bar or restaurant setting.

A brand for every occasion





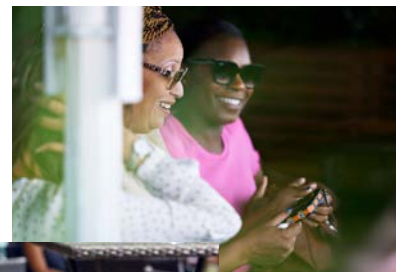
Welcome to Mitchells & Butlers

Our purpose is to be the host of life's memorable moments, bringing people and communities together through great experiences.

Despite the impact on sales of the Covid-19 Omicron variant in the early part of the financial year, it has been rewarding to be able to deliver this purpose unencumbered by restrictions and with some certainty about our ability to trade over a sustained period. Allied to this has been the evidence that our guests' love of socialising with friends in a pub or restaurant environment has remained strong. This year has been focused on rebuilding trade, against a backdrop of inflationary cost challenges, and strengthening the teams which make our pubs and restaurants thrive, with a view to creating long-term sustainable value for all of our stakeholders.

The next few pages show some of the things we have done in FY 2022 to support our guests, people and communities.

Phil Urban
Chief Executive



Purpose in Action – Apprenticeships

We have maintained our support for the development of our people...

To support our recovery post-pandemic, the Group has continued to both invest in, and grow, our population of apprentices – introducing new talent to our industry, whilst also upskilling our current employees looking to further their careers.

We offer hospitality-specific apprenticeships nationwide in all our managed pubs and restaurants, alongside a menu of intermediate and degree level apprenticeships for corporate employees. We now offer 25 apprenticeship standards and partner with eight providers and universities.

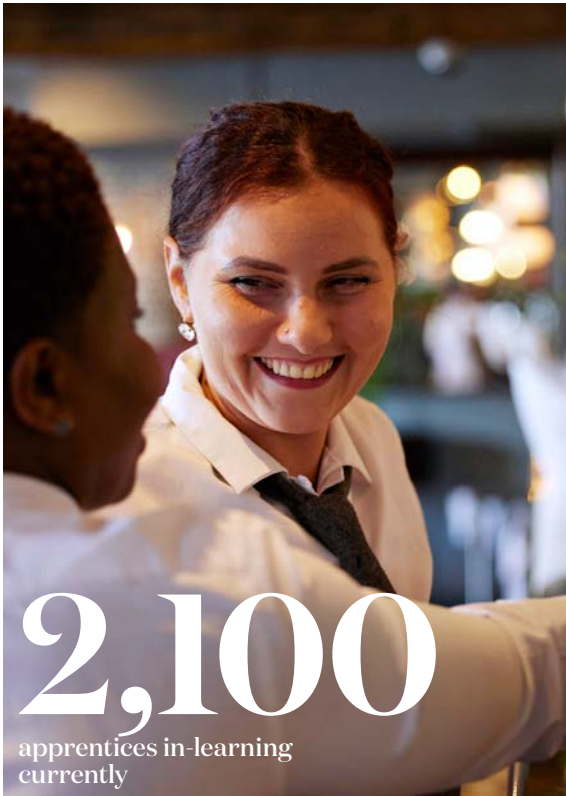
This year, over 1,000 apprentices have joined us, and a similar number of our current employees have enrolled onto one of the apprenticeship opportunities open to them. We are also delighted that over 350 employees successfully completed their first apprenticeship during FY 2022. The Group now has around 2,100 apprentices in-learning within the organisation. Given the importance of developing and retaining chefs, we continue to grow our culinary capability via our Chefs' Academy. Designed to inspire and develop internal culinary skill over and above that which our core menus require, 175 of our chefs have embarked on the Commis Chef apprenticeship delivered by our award-winning tutors.

We were extremely proud to gain external recognition from the Gov.uk Top 100 Apprenticeship Employers 2022, where we placed 7th. This is an improvement on previous placings, and meant we were the only hospitality organisation to place in the top 20. We also managed to retain our Top 100 Employer status in the 'Rate My Apprenticeship' awards as voted for by our apprentices. We achieved National Apprenticeship Awards West Midlands Highly Commended in both the Macro Employer of the Year, and Recruitment Programme of the Year categories. Our HR apprentice Lauren Carroll was awarded Higher Apprentice of the Year West Midlands.

In FY 2023, we will continue to expand our apprenticeship opportunities from Level 2 through to Level 7 and have an appetite to keep growing our own apprenticeship talent. We are aspiring to recruit a further 1,000 new employees in addition to accelerating the careers of 1,000 current employees ensuring both populations have a genuine alternative to college and university, and enjoy long-lasting and rewarding careers in hospitality.

“In the year ahead, we will continue to expand our apprenticeship opportunities and grow our apprenticeship talent.”





A fellowship of the City & Guilds of London Institute was recently bestowed on Gary Richmond, Culinary Learning & Development Manager for our Chefs' Academy apprenticeship programme. This was in recognition of his outstanding professional and personal achievement and his contribution as a passionate advocate of technical, vocational and lifelong education.

Fellowship of the City & Guilds of London Institute is a prestigious honour, made even more special as Gary started his career with a City & Guilds apprenticeship aged just 15. Now, over 40 years later, Gary dedicates his time to teaching the our apprentices on the City & Guilds pathway.

Gary was one of only four to be nominated for a fellowship. As part of his fellowship, he will now continue to promote the Guild, the hospitality industry, and apprenticeships.

When asked about the fellowship, Gary commented:

"I'm extremely proud and honoured to be bestowed this honour. Training and development is hugely important to me, and to be recognised for doing a job I absolutely love is extremely humbling. I am passionate about promoting this wonderful industry and mentoring our chefs, kitchen managers and rising stars of the future."



Every year we host MABsterchef for our chef apprentices to showcase their skills.

The cook-off competition is a chance for any chef apprentice to create and cook a dish that will blow our judges away.

Here we speak to James Howden-Bee, a chef apprentice from Sizzling Pub & Grill, about his experience of the day and the preparation that went into cooking his winning dish of pan-seared duck breast with fondant potato, chantenay carrots, grilled asparagus, served with a red currant and red wine sauce:

"I'm very proud to be named the winner of MABsterchef 2022. The highlight of the day was meeting all the chefs from different brands, and seeing the dishes they had created was great. There was also a huge buzz around the room. You could see the chefs were nervous, but everyone was having a good time and enjoying the experience."

"My advice to anyone competing in the competition is to stick to the brief. Remember that the dish you are creating has to be cooked for over 500 people plus. So, keep it simple, and just focus on cooking it well and packing it with flavour! And, make sure you practise, practise, and practise. I think my wife and the rest of my pub team are heartily sick of trying duck with different potatoes and sauce!"



Purpose in Action – Community

Our pubs, bars and restaurants have continued to serve and support their communities...

Our businesses have long been a hub for local communities to gather, providing intangible benefits beyond the core offer of food and drink.

Various initiatives to support our communities are in place, organised at a brand and company level.

One of these is our work with Social Bite, a charity which helps people experiencing homelessness regain their independence, as well as being the largest provider of freshly-made free food in the UK to those in need. In FY 2022, we have supported their initiative to help revolutionise the access that people, who have experienced homelessness, have to job opportunities across the UK. Through Social Bite's Jobs First programme, we are working with them to help break down the barriers people face on their route to employment and support them to reach their potential.

The programme, which guarantees living wage employment for each person who participates, will provide wrap-around support for both the employer and employee. We offer each Jobs First employee a 13-week training schedule and a support worker from Social Bite will assist them throughout the programme and their employment contract, meeting weekly to offer practical support on bills and forms, as well as emotional guidance and confidence-building to adapt to working life. Our General Managers work together with Social Bite to appropriately guide the employee, facilitating appraisal processes and employee progress.

The key focus for partnering with Social Bite is that we can offer Jobs First employees a chance to grow current skills and learn new ones. We have found that our current candidates have learnt many key skills whilst working with us as we can offer a safe learning environment that can help people to flourish. Some key learnt skills are:

- Interacting with guests and other team members
- Growing self confidence
- Time management
- Kitchen skills
- Mental wellbeing

So far, All Bar One Edinburgh, Glasgow and Regent Street, Browns Glasgow and Harvester Hillington have been inducted into the scheme with seven employees having joined Mitchells & Butlers.

We aim to continue the great partnership with Social Bite by supporting the current sites and opening up more opportunities for sites to join the Jobs First Programme especially in London. We will be supporting the charity with their upcoming Break the Cycle event. Over the festive period we will also be partnering with Social Bite during their Festival of Kindness campaign, by raising donations via our festive menus and raising awareness of the campaign in our sites.

We are also supporting Social Bite through contactless donation terminals in four of our sites, as well as various virtual challenges for our frontline and corporate teams.

Alongside this central and brand-driven activity there are countless outlet-led and individual contributions to the community which take place every day – from sponsorship events to small acts of kindness. These place the Group, its people and its pubs, bars and restaurants at the core of their communities, both serving and supporting them.





“These initiatives place Mitchells & Butlers, its people and its pubs at the core of their communities.”



SOCIAL BITE

“At Social Bite we have always worked to create a movement that invites great businesses to become part of the solution to end homelessness.

This partnership has enabled real positive change in the lives of people who have experienced homelessness and is creating tangible ways to break the cycle of homelessness.

We are thrilled to be working with Mitchells & Butlers in our mission to end homelessness, thank you for your continued support.”

Josh Littlejohn MBE
Social Bite Co-Founder

Harvester

“I’m coming up to my first year of employment and I want to thank Mitchells & Butlers and Social Bite for all the help and support they have given. I personally needed the help and motivation to get myself back into work after suffering the loss of a close relative.

Social Bite helped me build my career path and gain the confidence to get back into work – whether it be money, work-related or personal life someone was always there for support and guidance. Mitchells & Butlers has been a great help also, a standout moment being when I broke my ankle and they still kept me employed and helped me through all the necessary training until I was fit for work.

Working at Mitchells & Butlers has been a great experience which I will never forget.”

Jobs First Employee
at Harvester

Purpose in Action – Sustainability

We have put sustainability and respect for the environment at the core of everything we do...

Our strategy aims to deliver long-term sustainable shareholder value through organic and sustainable growth.

We have deliberately interlinked sustainability with our strategy so that it becomes part of our culture. Our strategy has been developed to align with the issues addressed by the UN Sustainable Development Goals and we have committed to reducing the negative impact of our business model on the environment in light of these objectives. The targets we have set ourselves as well as further detail on our sustainability strategy can be seen on pages 32 and 33.

During FY 2022 we have put in place a number of initiatives to support these targets:

- **Cool food pledge:** World Resources Institute ('WRI') introduced the pledge to help people and organisations reduce the climate impact of the food they consume through shifting towards lower emission options. We currently have eight All Bar Ones and ten Harvesters trialling menus that deliver reduced carbon emissions, with a range of new, lower emission dishes. Initial indications are that the menus reduce emissions by around ten per cent. We will continue these trials and hope to roll out the menu more widely in the future.

- **Nutrition:** we introduced calorie information for more than 10,000 recipes in all our core brands in April 2022. This is the foundation of our wider nutrition strategy which was developed to enhance the nutritional quality of the dishes we serve. The strategy focuses on reducing calories and saturated fat, as well as reducing salt in our meals by 2024, in line with Public Health England's reduction targets for children's meals.
- **Packaging:** our target is to increase the proportion of waste recycled to 80% by FY 2025. We are therefore working closely with our food and drink suppliers to remove and reduce packaging of items delivered to sites, allowing our teams to recycle more. In FY 2022 we completed a project with our waste management partner Biffa to give the majority of our sites separate glass, cardboard and food waste bins, with around 200 sites additionally having the ability to recycle plastic.
- **Animal welfare:** during the period we have hosted an animal welfare workshop with our major animal protein suppliers, agreed better dairy cattle welfare standards with our suppliers, as well as working in partnership with our laying hens' suppliers to improve conditions.
- **Energy and water:** we have introduced an incentive for our pubs to reduce their usage of energy by ten per cent. All sites have benefited from energy audits to identify means to reduce energy usage with smart meters now installed across the estate. We are also trialling various energy-saving technological solutions such as heating system additives, voltage optimisers and heat recovery systems. Another focus in the coming year is on reducing water consumption and improving water reuse and recycling.
- **Property:** we are engaging proactively with our contractors to develop common construction techniques to incorporate sustainable building practices into our day-to-day conversion and remodel investment programme from sourcing of timber to recycling of construction waste.

We will continue to focus on embedding a sustainability ethos into our business so that we can create a positive effect on people and communities and reduce the negative impact of our operations on the environment.

Further detail on our work in this area can be seen on pages 32 and 33.



“We will continue to focus on embedding a sustainability ethos into our business so that we can create a positive effect on people and communities.”



10k+

Calorie information shown for more than 10,000 recipes on our menus



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 Iwell
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**
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“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.



Nicholson's

Castle

All Bar One

◀ Drink led



High Street sites

Ember Inns

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.”

Premium
drink led

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



Premium
food led



“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.

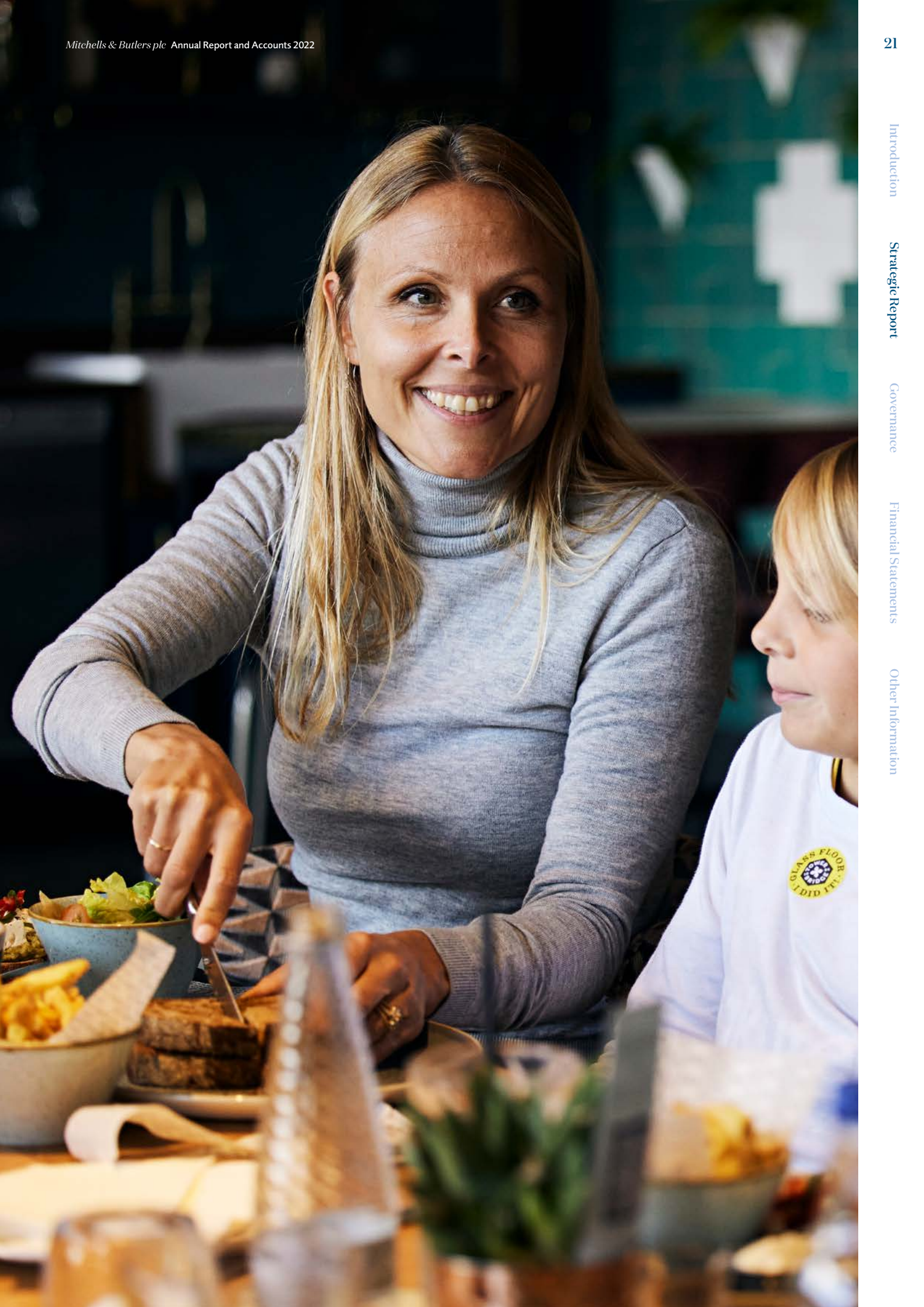
Cost inflation headwinds continue to present a significant challenge for the sector as a whole, notably in energy, food and wages but now evident throughout our supply chains. Overall for the current year, we anticipate an inflationary cost headwind across our c. £1.8 billion cost base in the region 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

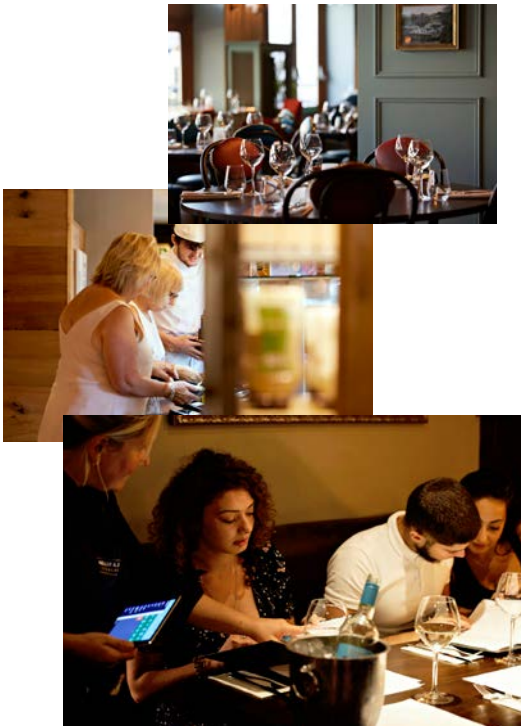
83%

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.

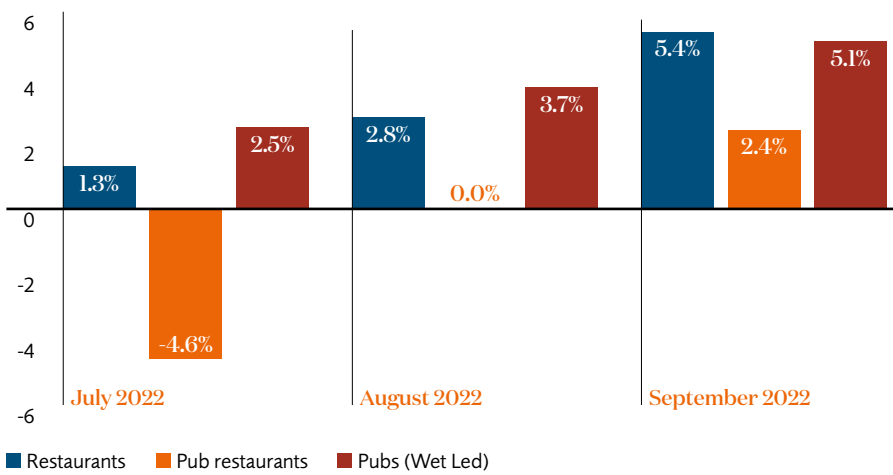
Sources:

- 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.”

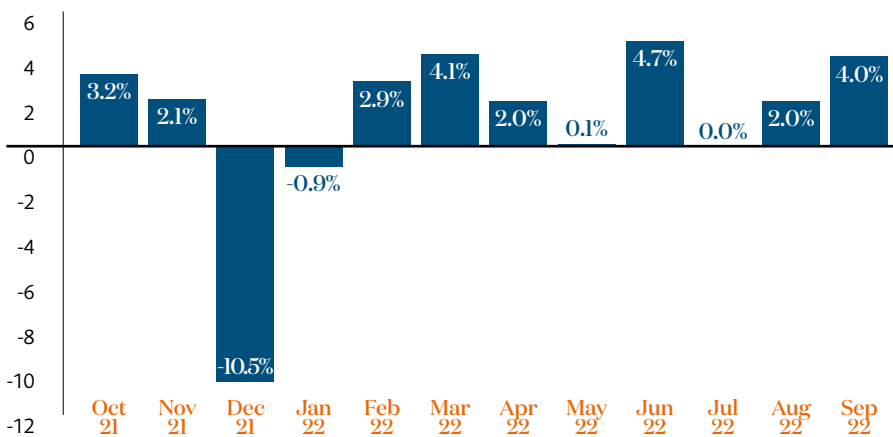


Coffer CGA Business Tracker (including M&B) by Segment, vs. 2019



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

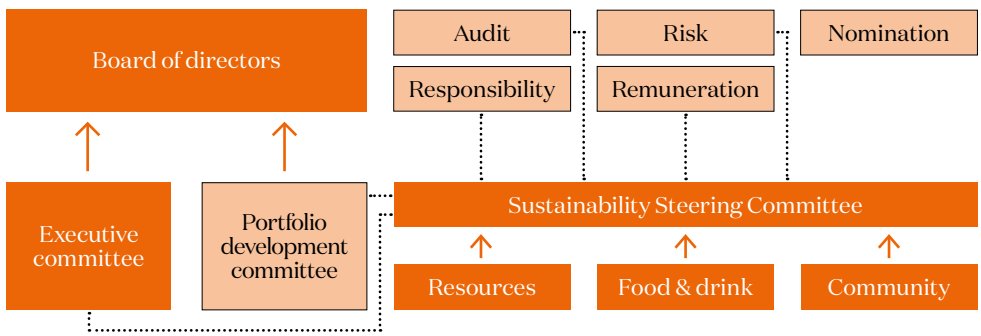
The Board is responsible for the long-term success of the Group and has an established framework in place which enables effective assessment and management of risks, including climate-related risks and opportunities. Responsibility for ESG matters is managed within the framework by the Corporate Responsibility 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.

<i>Transition risk</i>	<i>Physical risk</i>	<i>Transition opportunity</i>
Risk Introduction of carbon taxes and levies	Risk Increased severity of extreme weather events	Risk Adjusting brand propositions to appeal to changing consumer preferences
Category Operational costs	Category Acute	Category Revenue
Description 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. 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 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. 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 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 We are a member of the UK Hospitality Sustainability Committee which enables us to have foresight over potential policy changes impacting the organisation. 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. 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 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. This monitoring activity will enable us to identify when patterns of increased instances of extreme weather events begin to develop. 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. 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 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. 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 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 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 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. Alongside financial performance these metrics will inform the future evolution of our brands.
Horizon Short – medium term	Horizon Short – medium term	Horizon 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.

<i>Metric category</i>	<i>Metric</i>	<i>Group targets</i>	<i>Link to identified risks and opportunities</i>
<p>Climate-related risk Greenhouse gas emissions Scope 1, 2 and 3</p> <p>Unit of measure tCO₂e</p>	<p>Absolute Scope 1, 2 and 3 emissions calculated in accordance with Greenhouse Gas Protocol guidance by an independent third party.</p>	<p>Yes – Group target set, Net Zero by 2040.</p> <p>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.</p>	<p>Carbon taxes and levies.</p>
<p>Climate-related risk Proportion of estate exposed to flood risk</p> <p>Unit of measure % of estate</p>	<p>Proportion of sites within the estate identified as high or medium flood risk due to proximity to rivers and coasts.</p>	<p>No target set, used as an internal measure of risk exposure.</p>	<p>Physical risk – increased instances of severe weather events.</p>
<p>Climate-related opportunity Transition to renewable energy</p> <p>Unit of measure % and megawatt hour ('MWh')</p>	<p>Percentage and MWh of energy consumption which is purchased from renewable sources.</p>	<p>No target set, reported as an indicator of progress.</p>	<p>Carbon taxes and levies.</p>
<p>Climate-related opportunity Workforce competence</p> <p>Unit of measure Number</p>	<p>Training provided to key groups or functions centrally. Completion of sustainability induction for frontline teams.</p>	<p>No targets set, to be considered during FY 2023.</p>	<p>Carbon taxes and levies.</p>

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



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



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



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

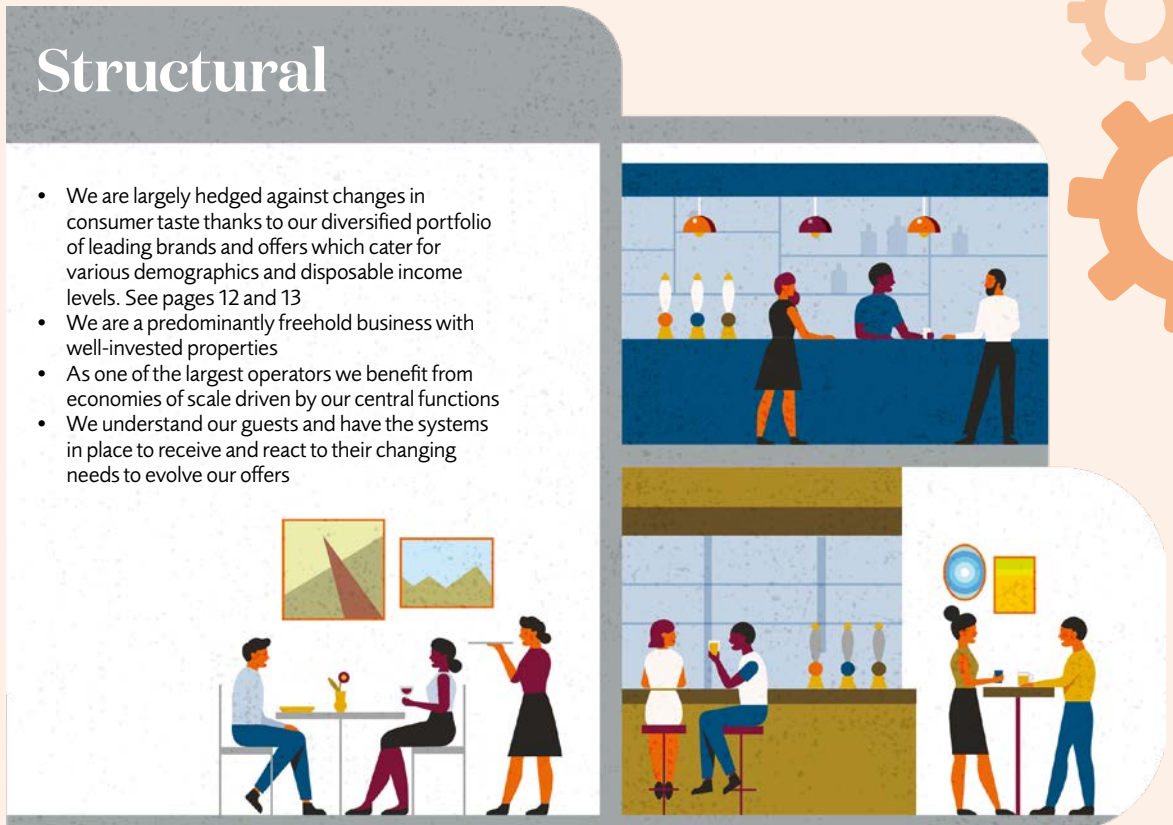
- Long-term transfer of value to equity as debt is paid down
- Strategy designed to generate sustainable growth and to provide flexibility in uncertain trading environments

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.

*The
Mitchells
& Butlers
difference*

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.

Our experience and ability to interpret guest feedback help us understand what our guests want.



Everything we learn about our guests' requirements is fed back.



Creating memorable moments generates value for stakeholders.



Suppliers



Guests



Employees

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

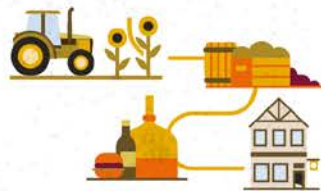


* As at 24 September 2022.

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



Achieved tier 3 Business Benchmark on Farm Animal Welfare rating

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



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.

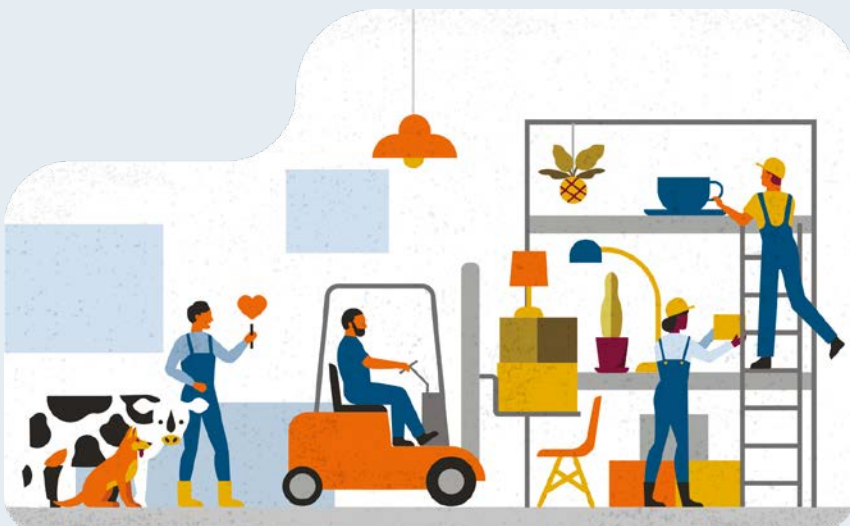
We work with suppliers to understand the environmental impact of our supply chain and to minimise the negative impact of production and transportation. We are working to ensure that all our suppliers can support our sustainability ambitions, including prioritising high animal welfare standards. Further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



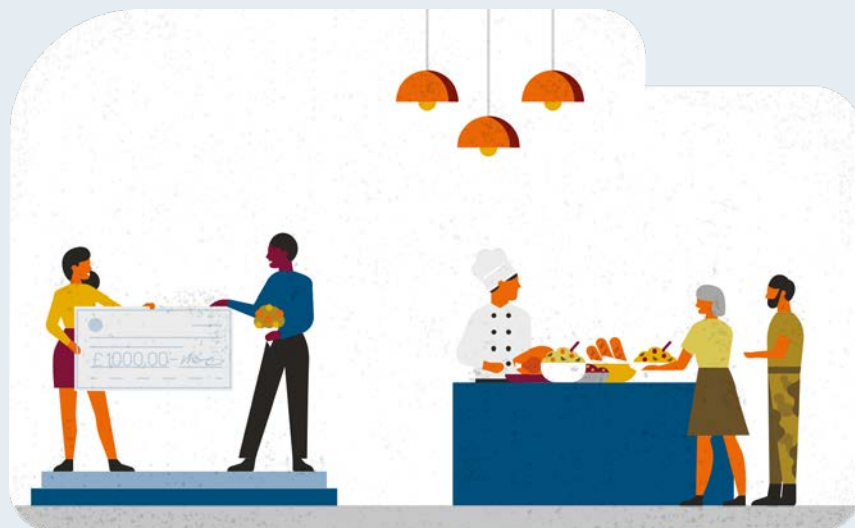
All direct palm oil purchases continue to be sourced from Rainforest Alliance approved suppliers

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



Investors

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.

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

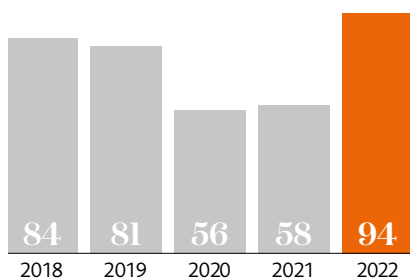
Definition

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

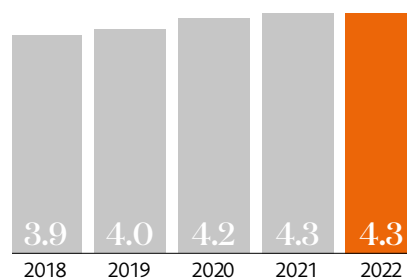
For several years, Mitchells & Butlers, along with many other hospitality businesses and other retail businesses, used Net Promoter Score ('NPS') as a measure of guest satisfaction with the experience it provides and reported NPS in its Annual Report.


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

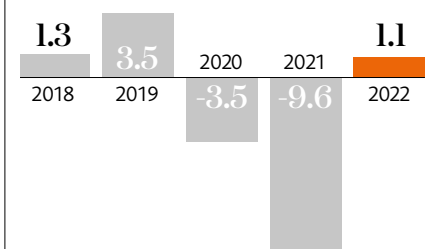
Definition


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

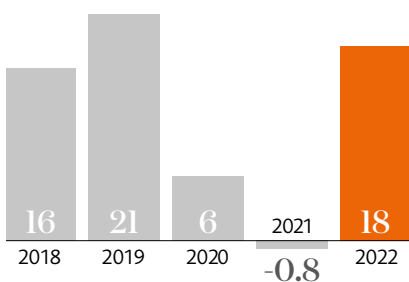
Definition

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

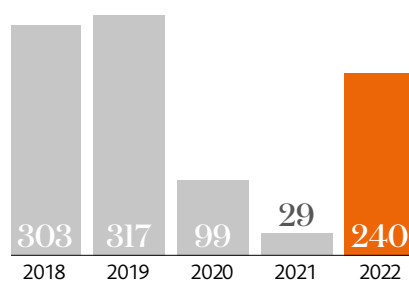
Definition


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.

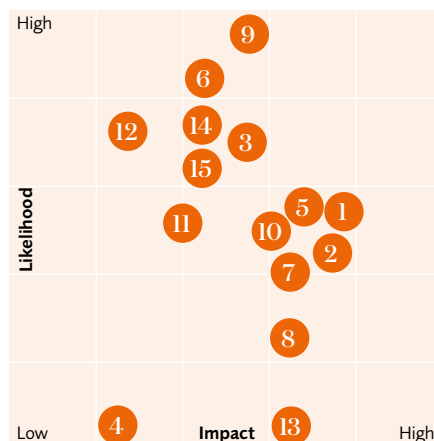
Key risk heat map

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
 - Leadership group/management
 - Internal controls and processes
 - Internal policies and procedures
 - Training
- 2nd**
 - Financial authority limits
 - Risk management processes
 - Audit Committee
 - Risk Committee
 - Health and Safety Team
 - Technology specialists
 - Legal support
- 3rd**
 - Group Assurance
 - Operational Practices Team

Risk category and description	High-level controls/mitigating activities	Movement
<p>1. Borrowing covenants</p> <p>There are risks that borrowing covenants are breached because of circumstances such as:</p> <ul style="list-style-type: none"> ii. a change in the economic climate leading to reduced cash net inflows; or ii. a material change in the valuation of the property portfolio. <p>Risk Increasing 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'.</p>	<ul style="list-style-type: none"> • 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). • In addition, regular forecasting and testing of covenant compliance is performed. • A detailed assessment of the mitigating risks is included in the long-term viability statement on page 52. 	<p>Risk Increasing</p> 
<p>2. Sales performance</p> <p>This risk falls into the below main categories:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Risk Stable Overall, this risk is stable due to improved sales performance following the lack of restrictions post the Covid-19 pandemic.</p>	<ul style="list-style-type: none"> • Right operational and commercial team and structure in place. Brand alignment ensures the right research is done and is acted upon. • Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place. • 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. • Primary research in partnership with brand and category teams. • Working with suppliers to tap into their research. • Each brand has its own pricing strategy. • Price promotions are in line with the agreed strategy. • Sales training for management. • Consumer and insight-led innovation process and development for new brands. • Reduce guest complaints by improving the local management of social media responses (e.g. Tripadvisor responses). • Increased digital marketing activity including new loyalty apps. • Increased activity from takeaway and delivery offerings. • 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. • 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. 	<p>Risk Stable</p> 

Risk category and description	High-level controls/mitigating activities	Movement
<p>3. People planning and development</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Wage pressure (over 25s) remains an issue, as competition for labour continues to increase.</p> <p>Risk Increasing</p> <p>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.</p>	<ul style="list-style-type: none"> • The Group makes significant investment in training to ensure that its people have the right skills to perform their jobs successfully. • 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. • 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. • 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. • A new talent management system has been sourced and is planned to be implemented in FY 2023. 	<p>Risk Increasing</p>  <p>Specifically in London/South East</p>
<p>4. Business continuity and crisis management</p> <p>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.</p> <p>Risk Stable</p> <p>Overall, the risk is stable. Staff have the resources and ability to work remotely rather than rely on access to the Retail Support Centre.</p>	<ul style="list-style-type: none"> • The Group has in place crisis and continuity plans that are reviewed and refreshed regularly. • 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. • We have assessed the risks associated with remote working and cyber security and are confident that those areas are suitably controlled. 	<p>Risk Stable</p> 

Risk category and description	High-level controls/mitigating activities	Movement
<p>5. Information and cyber security</p> <p>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.</p> <p>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.</p> <p>Risk of non-compliance with data protection laws is an increasing risk for the business to ensure full compliance remains up to date.</p> <p>Risk Decreasing</p> <p>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.</p>	<ul style="list-style-type: none"> • 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. • In addition, controls include: <ul style="list-style-type: none"> – The work carried out by the Group's cross-functional Information Security Steering Group. – Group Assurance IT controls reviews. – Implementation and revision of appropriate cyber security governance policies and procedures. – Ongoing security awareness initiatives continue to be undertaken. – A regular cycle of penetration testing. – Increased focus on protecting the business against potential cyber attacks has resulted in the implementation of additional controls to mitigate against such risks. – The effective implementation of a business-wide data protection compliance programme, including training of all relevant employees and contractors. – Systems, processes and controls have been reviewed and updated to ensure compliance with data protection laws. 	<p>Risk Decreasing</p> 
<p>6. Wage cost inflation</p> <p>There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs.</p> <p>Risk Increasing</p> <p>Due to further increases set by Government, wage costs continue to increase.</p>	<ul style="list-style-type: none"> • 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. • We have successfully implemented a time and attendance system to improve the management controls and reporting of staff hours. 	<p>Risk Increasing</p> 
<p>7. Pension fund deficit</p> <p>The material value of the pension fund deficit remains a risk.</p> <p>Risk Decreasing</p> <p>The Group has made significant additional contributions to reduce the funding deficit.</p>	<ul style="list-style-type: none"> • 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). • 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. • 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. • In FY 2022, an Executive Committee pension scheme full buy-in was undertaken. 	<p>Risk Decreasing</p> 

Risk category and description	High-level controls/mitigating activities	Movement
<p>8. Failure to operate safely and legally</p> <p>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.</p> <p>Risk Stable Overall, the risk continues to be stable. In particular, allergen-related incidents and near misses have stabilised.</p>	<ul style="list-style-type: none"> • The Group maintains a robust programme of health and safety checks both within its restaurants, pubs and bars and throughout the supply chain. • 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. • Regular independent audits of trading sites are performed to ensure that procedures are followed and that appropriate standards are maintained. • If a business is identified as underperforming in terms of health and safety standards, it is immediately targeted for improvement and then reassessed. • Food suppliers are required to meet the British Retail Consortium Global Standard for Food Safety and are subject to regular safety and quality audits. • Comprehensive health and safety training programmes are in place. 	<p>Risk Stable</p> 
<p>9. Cost of goods – price increases</p> <p>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.</p> <p>Drinks: The cost of drinks for resale increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits.</p> <p>Utility costs: A number of external factors, including the result of the war in Ukraine, has led to an increased cost pressure on utility costs, for the Group.</p> <p>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.</p> <p>Risk Increasing The overall risk of cost inflation is increasing given a number of factors, including:</p> <ul style="list-style-type: none"> • Rising UK inflation • Rising utility costs • Exchange rate movements • Labour shortages • Raw material availability issues • The impact of the war in Ukraine • Higher haulage and shipping costs • Poor harvests <p>However, mitigation is sought where possible through a change of supplier, products, specification, range and an ongoing review and monitoring of energy cost management.</p>	<p>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:</p> <p>Food:</p> <ul style="list-style-type: none"> • A food procurement strategy is in place. • Full reviews are carried out on key categories to ensure optimum value is achieved in each category. • A full range review was completed in FY 2022 ensuring the correct number of products and suppliers. This is regularly reviewed. • Regular reporting of current and projected inflation. • Good relationships with key suppliers. <p>Drinks:</p> <ul style="list-style-type: none"> • 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. • Good relationships with key suppliers. • Supplier collaboration programmes are in place. <p>Energy:</p> <ul style="list-style-type: none"> • Ongoing review of energy purchasing policy (covering short-term and medium-term energy purchasing). • 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. • Weekly Energy Cost Price & Forecast Reports are produced and monitored. • Trial of solar panels to reduce reliance on the grid. • Energy Ambassadors complete energy audits in every business. Please also refer to Purpose in Action – Sustainability on page 08. 	<p>Risk Increasing</p> 

Risk category and description	High-level controls/mitigating activities	Movement
<p>10. Food supply chain safety</p> <p>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.</p> <p>Risk Stable Risks facing the food supply chain safety are regarded as stable.</p>	<ul style="list-style-type: none"> 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. The Group uses a robust system of detailed product specifications. 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. 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. 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. 	<p>Risk Stable</p> 
<p>11. Health and lifestyle concerns</p> <p>Failure to respond to changing consumer expectations in relation to health and lifestyle choices and our responsibility to facilitate those.</p> <p>Risk Increasing 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.</p>	<ul style="list-style-type: none"> 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. We have set targets for ongoing sugar and salt reduction. 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. 	<p>Risk Increasing</p> 
<p>12. Environment and sustainability</p> <p>Climate change, biodiversity depletion and environmental pollution present a risk to our ability to source products, with food being particularly at risk.</p> <p>Risk Increasing 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.</p>	<ul style="list-style-type: none"> 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). 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. 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. 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. We are working with industry collaboration groups to develop a roadmap to sourcing sustainable soy in our supply chain. 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. 	<p>Risk Increasing</p> 

Risk category and description	High-level controls/mitigating activities	Movement
<p>13. Enforced Government closure/trading restrictions</p> <p>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.</p> <p>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.</p> <p>Risk Stable</p> <p>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.</p>	<ul style="list-style-type: none"> 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. Business opening and closure processes have been updated. Strong supply chain relationships are maintained to assist in the event of cancelling and/or returning stock orders. Robust processes are in place to manage Government furlough schemes. 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. Established communication cascade and mechanisms are in place for employees, guests and suppliers. IT infrastructure, hardware, systems and employee support is in place to maintain remote working. 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. 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. 	<p>Risk Stable</p> <p>↔</p>
<p>14. Introduction of carbon taxes and levies</p> <p>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.</p> <p>Risk Stable</p> <p>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.</p>	<ul style="list-style-type: none"> The Group is a member of UK Hospitality Sustainability Committee which enables us to have foresight over potential policy changes impacting the organisation. 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. 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. 	<p>Risk Stable</p> <p>↔</p>

<i>Risk category and description</i>	<i>High-level controls/mitigating activities</i>	<i>Movement</i>
<p>15. Increased severity of extreme weather events</p> <p>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.</p> <p>Risk Stable 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.</p>	<ul style="list-style-type: none"> • 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. • This monitoring activity will enable the Group to identify when patterns of increased instances of extreme weather events begin to develop. • 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. • 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. 	<p>Risk Stable</p> <p>↔</p>

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.

Governance

Outlines how the Group monitors its actions, policies, practices and decisions as well as the effect of those actions on its stakeholders.

In this section

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Chairman's introduction to governance

“Dear fellow shareholders, I have pleasure in updating you on our progress in corporate governance over the past year.”

Bob Iwell
Chairman

As at 24 September 2022, the Company had more than 46,000 employees and one of the key roles for the Board is to provide leadership for them and maintain the highest possible standards of corporate governance.

The Company is required to report under the 2018 UK Corporate Governance Code (the '2018 Code'). The 2018 Code places emphasis on relationships between companies, shareholders and stakeholders. It also promotes the importance of establishing a corporate culture that is aligned with the Company's purpose and business strategy, promotes integrity and values diversity and sets the expectations for reporting the Board's involvement in these areas. Some of these aspects of the 2018 Code are reflected in the Strategic Report on pages 10 to 58, which sets out the Group's strategy, progress and performance for the year. Meanwhile, the Board-focused corporate governance aspects of the 2018 Code are reflected in the Corporate Governance Statement on pages 73 to 84, which sets out the Company's compliance against published governance requirements where there is a narrative explanation as to how the Board has approached compliance with, or in a few limited areas divergence from, the Code's best practice guidance.

FY 2022 has brought about additional reporting requirements in relation to climate change and full details are included in that section of the Strategic Report on pages 28 to 31. Phil Urban heads our climate change policy initiatives, and while this area remains a responsibility of the entire Board, the Corporate Responsibility Committee manages and monitors the detail of the Group's approach to this important topic. The organisational and reporting structure for climate governance is set out on page 29 in our climate related disclosures.

During the year, the Board continued to work together to deal with the many and varied challenges arising from the ongoing consequences of the pandemic, together with the continued drain on cash resources. I am very grateful both to the Board and all our employees who pulled together so magnificently to remain steadfast in such difficult circumstances.

The first quarter of FY 2022 was once again impacted by Covid-19, with the spread of the Omicron variant, though the operating and trading environment of the Group's businesses has, in all material respects, returned to the normal pattern of activities which existed prior to the Covid-19 pandemic.

Our broad range of Board talent covers a variety of professional skills, and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board. Susan Murray, our Senior Independent Director, decided not to submit herself for re-election at the 2022 Annual General Meeting in order to concentrate on her other commitments and activities, and Jane Moriarty accepted the Board's invitation to become the Senior Independent Director with effect from the end of the 2022 AGM. I would like to thank Susan for her dedicated service and unwavering support, particularly during the course of the pandemic.

We were very pleased to welcome Amanda Brown as a new Non-Executive Director, who joined the Board with effect from 4 July 2022 and at the same time, was appointed Chair of the Remuneration Committee. She brings extensive Human Resources skills to the Board and has previous experience of chairing a Remuneration Committee. We look forward to working with her to continue to develop the business and you can read her Report on Directors' remuneration on page 89.

Finally, our Company Secretary and General Counsel, Greg McMahon, stepped down from his role on 31 August 2022 having been with us since 2013, and we wish him a long and happy retirement. We are delighted to welcome his replacement, Andrew Freeman, to the Company.

My focus will continue to be on maintaining a strong team, with a broad range of professional backgrounds, experience from both within our sector and in other industries and businesses and communication skills to drive further improvements where possible. From a governance standpoint, the basic governance arrangements already in place are unchanged since FY 2021, with the exception of additional procedures and reporting arrangements put in place in order to comply with the new climate change requirements. Certain aspects of the 2018 Code could not be, and were not, complied with in FY 2021 and this continued into FY 2022. These deviations from the 2018 Code are fully explained on pages 76 and 77 in the Corporate Governance Statement in line with the 'Comply or Explain' regime which forms an intrinsic part of that 2018 Code.

The 2018 Code states that there should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors and that the chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. An externally facilitated review of the Board's effectiveness took place in 2018 and the results were published in the 2018 Annual Report and Accounts, with the next externally facilitated review being due for reporting in the 2021 Annual Report and Accounts. Instead, the Board decided that the interests of shareholders would be better served by the Board focusing on restarting the business following the pandemic and consequently no external evaluation took place in respect of FY 2021, nor in FY 2022. The Board will review this approach as and when it feels it necessary to do so in the context of the circumstances in which the Group is operating. Although there was no formal evaluation carried out during the year, I remain satisfied that the skills, contributions and experience of the Board are appropriate for the challenges faced by the Group during the year and for the future. You can read the Board biographies on pages 62 and 63.

The annual appraisal of my performance as Chairman was carried out in FY 2022 by the Senior Independent Director, Jane Moriarty, with the conclusions fed back to me.

The remainder of this Corporate Governance Statement contains the narrative reporting required by the 2018 Code, the Listing Rules and the Disclosure Guidance and Transparency Rules. I hope that you find this Corporate Governance Statement to be informative and helpful in relation to this important topic.

We are committed to maintaining an active dialogue with all our shareholders, and we continue to offer our institutional investors access to key senior management and our Investor Relations team. The Chair of each of our Audit Committee and Remuneration Committee and the Senior Independent Director are available for dialogue with shareholders on any significant matters in relation to their areas of responsibility if this is needed and you can read their reports on pages 85 and 89 respectively.

The Annual General Meeting will be held in February 2023 and all shareholders are welcome to attend. For those shareholders who cannot attend but would like to hear the proceedings, we will also supply a telephone listen-only facility. Full details are set out in the separate Notice of AGM published with this Annual Report.

I look forward to the year ahead, confident in the knowledge that the Company is led by a highly competent, professional and motivated team. I also look forward to the support of you, our shareholders, as our senior management team looks to rebuild the business and continues to focus on driving future profit growth and creating additional shareholder value.

Bob Ivell
Chairman
Mitchells & Butlers plc

 **For the Company's latest financial information**
Go to www.mbplc.com/investors

Board of Directors

A strong leadership team

Our broad range of Board talent covers a variety of professional skills, and our diverse group of Non-Executive Directors continue to bring much experience and challenge to the Board.

Key to Committee membership

- A** Audit Committee
- R** Remuneration Committee
- N** Nomination Committee
- M** Market Disclosure Committee
- E** Executive Committee
- C** Corporate Responsibility Committee
- P** Pensions Committee



Bob Ivell
*Non-Executive
Chairman*

RNMCP

Appointed to the Board in May 2011, Bob has over 40 years of extensive food and beverage experience with a particular focus on food-led, managed restaurants, pubs and hotels. He is currently a Non-Executive Director of Charles Wells Limited and a board member of UK Hospitality. He was previously Senior Independent Director of AGA Rangemaster Group plc and Britvic plc, and a main board Director of S&N plc as Chairman and Managing Director of its Scottish & Newcastle retail division. He has also been Chairman of Carpetright plc, Regent Inns, Park Resorts and David Lloyd Leisure Limited, and was Managing Director of Beefeater Restaurants, one of Whitbread's pub restaurant brands, and a Director of The Restaurant Group. Bob is Chair of the Nomination Committee, the Pensions Committee, the Market Disclosure Committee and the Corporate Responsibility Committee.



Phil Urban
Chief Executive

MEP

Phil joined Mitchells & Butlers in January 2015 as Chief Operating Officer and became Chief Executive in September 2015. Phil was previously Managing Director at Grosvenor Casinos, a division of Rank Group and Chairman of the National Casino Forum. Prior to that, he was Managing Director for Whitbread's Pub Restaurant Division, and for Scottish & Newcastle Retail's Restaurants and Accommodation Division. Phil has an MBA and is a qualified management accountant ('CIMA').



Tim Jones
*Chief Financial
Officer*

MEP

Tim was appointed Chief Financial Officer in October 2010. Prior to joining the Company, he held the position of Group Finance Director for Interserve plc, a support services group. Previously, he was Director of Financial Operations at Novar plc and held senior financial roles both in the UK and overseas in the logistics company, Exel plc. Tim is a member of the Institute of Chartered Accountants in England and Wales and obtained an MA in Economics at Cambridge University.



Amanda Brown
Non-Executive Director

ARNC

Amanda joined the Board in July 2022 as an independent Non-Executive Director. She is a Non-Executive Director and Chair of the Remuneration Committee of Micro Focus International PLC and was formerly the Chief Human Resources Officer of Hiscox Limited. She previously held senior executive roles with Whitbread Group PLC, PepsiCo, Inc and Mars, Inc. Amanda is Chair of the Remuneration Committee.



Keith Browne
Non-Executive Director

P

Appointed as a Non-Executive Director in September 2016, Keith is a nominated shareholder representative of Elpida Group Limited, which, as part of the Odyzean Group, is a significant shareholder in Mitchells & Butlers. He is a Non-Executive Director of Grove Limited, the holding company of Barchester Healthcare Limited. Keith obtained a Bachelor of Commerce Degree from University College Dublin, qualified as a chartered accountant in 1994 and subsequently gained an MBA from University College Dublin. After joining KPMG Corporate Finance in 1996, he became a partner in the firm in 2001 and Head of Corporate Finance in 2009. He retired from the partnership to operate as an Independent Consultant in 2011.



Dave Coplin
Non-Executive Director

ARNC

Appointed as an independent Non-Executive Director in February 2016, Dave is the Chief Executive Officer and founder of The Envisioners Limited. He was formerly the Chief Envisioning Officer for Microsoft Limited, and is an established thought leader on the role of technology in our personal and professional lives. For over 25 years he has worked across a range of industries and customer marketplaces, providing strategic advice and guidance around the role and optimisation of technology in modern society, both inside and outside of the world of work. Dave is also a Non-Executive Director of each of the Pensions and Lifetime Savings Association and Vianet Group plc.



Eddie Irwin
Non-Executive Director

NC

Appointed as a Non-Executive Director in March 2012, Eddie is a nominated shareholder representative of Elpida Group Limited, which, as part of the Odyzean Group, is a significant shareholder in Mitchells & Butlers. Eddie is Finance Director of Coolmore, a leading thoroughbred bloodstock breeder with operations in Ireland, the USA and Australia and a Non-Executive Director of Grove Limited, the holding company of Barchester Healthcare Limited. He graduated from University College Dublin with a Bachelor of Commerce Degree and he is a Fellow of both The Association of Chartered Certified Accountants and The Chartered Governance Institute.



Josh Levy
Non-Executive Director

RP

Appointed as a Non-Executive Director in November 2015, Josh is a nominated shareholder representative of Piedmont Inc., which, as part of the Odyzean Group, is a significant shareholder in Mitchells & Butlers. Josh is Chief Executive of Ultimate Finance Group, Chairman of Avenue Insurance and a Director of Tavistock Group. Josh previously worked in the Investment Banking Division of Investec Bank.



Jane Moriarty
Senior Independent Director

ARNCM

Appointed as an independent Non-Executive Director in February 2019, Jane is a Fellow of the Institute of Chartered Accountants in Ireland, and currently a Non-Executive Director of Babcock International Group PLC, and a Director of NG Bailey Group Limited, Quarto Group Inc., Tennants Consolidated Limited, Nyrstar NV and Martin's Investments Limited. Jane was previously a senior advisory partner with KPMG LLP. Jane is Chair of the Audit Committee.

Directors' report

The Board's responsibilities in respect of the Company include:

- Determining the overall business and commercial strategy
- Identifying the Company's long-term objectives
- Reviewing the annual operating budget and financial plans and monitoring performance in relation to those plans
- Determining the basis of the allocation of capital
- Considering all policy matters relating to the Company's activities including any major change of policy

For FY 2022, the Board is reporting under the 2018 Code. Further information is set out in the Strategic Report on pages 10 to 58 which examines the 'purpose' aspect of the 2018 Code and in the Corporate Governance Statement on pages 73 to 84, which describes the Company's approach and practices in relation to the 2018 Code.

 **For the Company's latest financial information**
Go to www.mbplc.com/investors

The Directors present their report on the affairs of the Group and the audited financial statements for the 52 weeks ended 24 September 2022. The Business review and Sustainability review of the Company and its subsidiaries are given on pages 18 to 20 and pages 32 and 33 respectively which, together with the Corporate Governance Statement and Audit Committee report, are incorporated by reference into this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing risks are given on pages 44 to 51, 83 and 84, and details about financial instruments are shown in note 4.3 to the financial statements. These sections include information about trends and factors likely to affect the future development and performance of the Group's businesses. The Company undertakes no obligation to update forward-looking statements.

Key performance indicators for the Group's businesses are set out on pages 42 and 43.

The Company's Directors pay due regard to the need to foster the Company's business relationships with suppliers, guests and others. Details of the Company's engagement process with various stakeholders and different tiers of suppliers, together with the effect of such consideration on the principal decisions taken by the Company during the financial year, are set out in the section discussing the Company's business model on pages 34 to 37 and in the statement made in compliance with Section 172 of the Companies Act 2006 set out on page 53.

This report has been prepared under current legislation and guidance in force at the year end date. In addition, the material contained on pages 10 to 58 reflects the Directors' understanding of the requirement to provide a Strategic Report.

This report has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come or who becomes aware of it and any such responsibility or liability is expressly disclaimed.

Areas of operation

During FY 2022, the Group had activities in, and operated through, pubs, bars and restaurants in the United Kingdom and Germany. As a consequence of the requirements of the Government and regulatory authorities in the four nations of the United Kingdom and in Germany, for extended periods of time during FY 2021, the Group's businesses in those countries were either closed or subject to varying levels and degrees of operating restrictions. At the end of FY 2021 those mandatory closure requirements and operating restrictions had been relaxed, though the first quarter of FY 2022 was once again impacted by Covid-19, with the spread of the Omicron variant resulting in renewed calls for caution in socialising over the important festive period. Thereafter, once it was confirmed that the symptoms of Omicron were generally mild, and the immunisation regime had been implemented widely across the population, consumer confidence was boosted and the operating and trading environment of the Group's businesses has, in all material respects, returned to the normal pattern of activities which existed prior to the Covid-19 pandemic. A summary of the performance of the business in the face of these challenges is set out on page 89.

A full list of the Company's subsidiaries and their respective country of operation is given on page 169 of the Annual Report.

Share capital and voting rights

The Company's issued ordinary share capital as at 24 September 2022 comprised a single class of ordinary shares of which 597,383,363 shares were in issue and listed on the London Stock Exchange (25 September 2021 596,618,849 shares). The rights and obligations attaching to the ordinary shares of the Company are contained within the Company's Articles of Association.

Of the issued share capital, no shares were held in treasury and the Company's employee share trusts held 3,846,671 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 166.

Each share carries the right to one vote at general meetings of the Company. The notice of the Annual General Meeting specifies deadlines for exercising voting rights in relation to the resolutions to be proposed at the Annual General Meeting.

All issued shares are fully paid up and carry no additional obligations or special rights. There are no restrictions on transfers of shares in the Company, or on the exercise of voting rights attached to them, other than those which may from time to time be applicable under existing laws and regulations and under the Articles of Association. In addition, pursuant to the Listing Rules of the Financial Conduct Authority, Directors and certain officers and employees of the Group require the prior approval of the Company to deal in the ordinary shares of the Company.

Participants in the Share Incentive Plan ('SIP') may complete a Form of Instruction which is used by Equiniti Share Plan Trustees Limited, the SIP Trustee, as the basis for voting on their behalf.

During the year, shares with a nominal value of £65,302 were allotted under all-employee schemes as permitted under Section 549 of the Companies Act 2006. No securities were issued in connection with a rights issue during the year.

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares.

Interests of the Directors and their immediate families in the issued share capital of the Company as at the year end are shown on page 103 in the Report on Directors' remuneration.

Dividends

No Final Dividend will be paid in respect of the financial year ended 24 September 2022 (FY 2021 nil). No Interim Dividend was paid during the year (FY 2021 nil).

On 14 February 2021, the Group reached agreement with its three relationship banks for a new £150m three year unsecured facility. In addition, extended waivers and amendments, applicable until January 2023, were agreed within the Group securitisation to provide flexibility and stability to manage the secured financing structure. Without these extensions, certain breaches would have resulted due to the ongoing impact of Covid-19 and the measures taken to stem the spread of the virus. Both the unsecured and secured financing agreements were conditional on completion of the Open Offer which took place in March 2021. In addition, on completion of the Open Offer, the full £100m of the term loans which the Company had secured, and drawn down, under the Coronavirus Large Business Interruption Loan Scheme was repaid.

In securing these valuable amendments the Group has agreed not to pay an external dividend, undertake any share buy-backs or repurchase bond debt until January 2023 at the earliest.

In addition, the Odyzean Group has indicated that it will support a focus on reinvesting any surplus cash in the Group's businesses and, therefore, would prefer the Company to prioritise debt repayment and investment in the Group's businesses over the payment of dividends for the foreseeable future.

Interests in voting rights

On 15 February 2021, the Company received notification of the interests of Odyzean Limited, a new holding company formed to consolidate the shareholdings in Mitchells & Butlers of Piedmont Inc., Elpida Group Limited, and Smoothfield Holding Ltd. As at 24 September 2022, the Company was aware of the significant holdings of voting rights (3% or more) in its shares shown in Table 1 below.

Table 1: Interests in voting rights as at 24 September 2022

Shareholder	Ordinary shares	% of share capital ^a	
Odyzean Limited ^b	338,833,695	56.72%	Direct holding
Standard Life Aberdeen plc	29,260,403	4.90%	Indirect holding
Standard Life Aberdeen plc (rights to recall lent shares)	170,000	0.03%	Indirect holding
Lansdowne Partners (UK) LLP	29,851,841	5.00%	Indirect holding

a. Based on the total voting rights figure as at 24 September 2022 of 597,383,363 shares.
 b. As the parent company of each of Piedmont Inc., Elpida Group Limited and Smoothfield Holding Ltd.
 Percentages are rounded to two decimal places.

The following change took place between 25 September 2022 and 6 December 2022:

- Lansdowne Partners (UK) LLP notified the Company on 29 September 2022 that its indirect holding was 29,633,363 shares (4.96%).

Directors

Details of the Board Directors as at 6 December 2022 and their biographies are shown on pages 62 and 63. The Directors as at 24 September 2022 and their interests in shares are shown on page 103.

During the year, Susan Murray stepped down from the Board on 25 January 2022 and Amanda Brown was appointed to the Board on 4 July 2022.

In relation to the appointment and removal of Directors the Company is governed by its Articles of Association and the Companies Act 2006 and related legislation. The powers of the Company's Directors are set out in the Company's Articles of Association.

In accordance with the Company's Articles of Association (which are in line with the best practice guidance of the 2018 Code) all the Directors will retire at the Annual General Meeting and will offer themselves for election or re-election as appropriate.

Major shareholder Board representation and relationship agreement

Until February 2021, the two largest shareholders in the Company were Piedmont Inc. ('Piedmont') and Elpida Group Limited ('Elpida'). On 15 February 2021, the Company was notified that a new holding company, Odyzean Limited ('Odyzean'), had been formed to consolidate the shareholdings in the Company of Piedmont, Elpida, and Smoothfield Holding Ltd, in order to address the significant capital needs of Mitchells & Butlers and to provide a clear and consistent framework for those shareholders' future relationship with the Company. Odyzean confirmed that it was fully supportive of the Mitchells & Butlers management team, and that it intended to review the composition of the Board of Directors of Mitchells & Butlers, and to work with the management team to ensure the strategy and structure of the business were appropriate to optimise its long-term success and that the time and cost devoted to public company matters were reduced.

The Board is grateful for the significant financial commitment provided by its major shareholders for the business, together with its 1,718 pubs and restaurants, and over 46,000 UK and German employees. The Company maintains excellent relations with Odyzean, whose investment objectives are fully aligned with those of the Group. Odyzean maintains a dialogue with the Board via the representatives on the Board nominated by Piedmont and Elpida, all of whom are careful to ensure that there is no conflict between their roles as representatives of shareholders and their duty to the Board.

Odyzean has representatives on the Board, nominated by Piedmont and Elpida respectively. Piedmont's appointment rights are formalised in the Deed of Appointment referred to in this report but there is no equivalent agreement in place between the Company and Elpida. The Elpida representatives were appointed with the approval of the Board in March 2012 and September 2016. The Board has carefully considered whether it would be appropriate to enter into a formal agreement with Elpida that is similar to the existing agreement between the Company and Piedmont. Having taken into account the Financial Reporting Council's report of August 2014 'Towards Clear & Concise Reporting' and the views expressed previously by certain investor representative bodies, the Board considers that such an agreement would be merely one of form rather than substance and not in the interests of shareholders generally. As a result, the Board does not propose, currently, that the Company should enter into such an agreement with Elpida, and Elpida has not, to date, sought such an agreement.

Under a Deed of Appointment between Piedmont Inc. and the Company, Piedmont Inc. has the right to appoint two shareholder Directors to the Board whilst it owns 22% or more of the issued share capital of the Company, and the right to appoint one shareholder Director to the Board whilst it owns more than 16% of the Company but less than 22%. In the event that Piedmont Inc. owns less than 16% of the Company any such shareholder Directors would be required to resign immediately. This Deed of Appointment also entitles Piedmont Inc. to appoint one Director to sit on the Nomination Committee and to have a Director attend, and receive all the papers relating to, meetings of the Remuneration Committee.

On 29 July 2021, the Company confirmed that it had entered into a relationship agreement with Odyzean, in line with the Company's stated intentions at the time of the Open Offer. The Company has complied with the independence provisions of the relationship agreement as required by LR 9.2.2ADR(1) and, so far as the Company is aware, Odyzean and any of its relevant associates have complied (or, as applicable, procured such compliance in accordance with LR 9.2.2BR(2)(a)) with those independence provisions.

There is a requirement to disclose the parent and ultimate controlling party of the Company where this is different. There is no parent or ultimate controlling party as such of Mitchells & Butlers plc. However, as disclosed in the table of 'Interests in voting rights' on page 65, and the section headed 'Major shareholder Board representation and relationship agreement' on page 65, Odyzean, as the holder of the separate shareholdings of Piedmont, Elpida and Smoothfield Holding Limited has disclosed its interest in 56.72% of the shares in the Company. Odyzean, however, does not actually hold any shares in the Company on its own behalf.

Directors' indemnity

As permitted by the Articles of Association, each of the Directors has the benefit of an indemnity, which is a qualifying third-party indemnity as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the tenure of each Director during the period, and is currently in force. The Company also purchased and maintained throughout the period Directors' and Officers' liability insurance in respect of itself and its Directors and the directors of any subsidiary of the Company. No indemnity is provided for the Company's auditor.

Articles of Association

The Articles of Association may be amended by special resolution of the shareholders of the Company.

Conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ('Situational Conflicts'). The Board has a formal system in place for Directors to declare Situational Conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a Situational Conflict, the non-conflicted Directors are required to act in the way they consider would be most likely to promote the success of the Company for the benefit of all shareholders, and they may impose limits or conditions when giving authorisation, or subsequently, if they think this is appropriate. The Board believes that the systems it has in place for reporting and considering Situational Conflicts continue to operate effectively.

Related party transactions

Internal controls are in place to ensure that any related party transactions involving Directors or their connected persons are carried out on an arm's-length basis and are properly recorded.

The related party transactions in FY 2022 to which the Group was party are set out in note 5.1 to the financial statements.

Change of control provisions

There are no significant agreements which contain provisions entitling other parties to such agreements to exercise termination or other rights in the event of a change of control of the Company.

There are no provisions in the Directors' or employees' service agreements providing for compensation for loss of office or employment occurring because of a takeover.

The trustee of the Company's SIP will invite participants on whose behalf it holds shares to direct it how to vote in respect of those shares, and, if there is an offer for the shares or other transaction which would lead to a change of control of the Company, participants may direct it to accept the offer or agree to the transaction. The trustee of the Mitchells & Butlers Employee Benefit Trust may, having consulted with the Company, vote or abstain from voting in respect of any shares it holds or accept or reject an offer relating to shares in any way it sees fit, and it may take all or any of the following matters into account: the long-term interests of beneficiaries; the non-financial interests of beneficiaries; the interests of beneficiaries in their capacity as employees or former employees; the interests of future beneficiaries; and considerations of a local, moral, ethical, environmental or social nature.

The rules of certain of the Company's share plans include provisions which apply in the event of a takeover or reconstruction, as set out in Table 2 below.

Table 2: Provisions which apply in the event of a takeover or reconstruction

Share plan	Provision in the event of a takeover
2013 Performance Restricted Share Plan	Awards vest pro rata to performance and time elapsed and lapse six months later
2013 Short Term Deferred Incentive Plan	Bonus shares may be released or exchanged for shares in the new controlling company
2013 Sharesave Plan	Options may be exercised within six months of a change of control
Share Incentive Plan	Free shares may be released or exchanged for shares in the new controlling company
Restricted Share Plan 2021	Awards are automatically released and replaced by an equivalent award in the new controlling company

It is proposed that the Sharesave Plan, the Share Incentive Plan and the Short Term Deferred Incentive Plan will be renewed at the 2023 AGM as their ten year life will be expiring in January 2023 (see the Report on Directors' remuneration for further information). The rules of the renewed share plans will contain similar provisions regarding a takeover or reconstruction of the Company as set out above. Full details are set out in the Notice of Meeting accompanying this Annual Report.

Additional disclosures

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Page(s)
Future developments of the business	10 to 58
Research and development	34 to 37
Financial instruments and financial risk management	150 and 152
Greenhouse gas emissions	69 to 71
Corporate governance statement	73 to 84
Employee involvement	68
Employees with disabilities	67
Non-financial reporting	10 to 58
Stakeholder engagement	75
Section 172 statement	53

Disclosures required pursuant to the Listing Rules can be found on the following pages:

	Page(s)
Information required by Listing Rule 9.8.4R	
1. Long-term incentive schemes	89 to 106
2. Allotment of shares during the year	166
3. Significant contracts	66
4. Significant related party agreements	66
5. Relationship agreement	65 and 66
Information required by Listing Rule 9.8.6R	
6. Directors' interests	103
7. Significant shareholders (DTR 5)	65
8. Going concern statement	58
9. Statement of corporate governance	73 to 84
10. Details of Directors' service contracts	105 and 106
11. Climate-related financial disclosures consistent with TCFD	28 to 31
12. Board diversity	76

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic Report that would otherwise be required to be disclosed in this Directors' report. The Strategic Report can be found on pages 10 to 58 and includes an indication of future likely developments in the Company, details of important events and the Company's business model and strategy.

Employment policies

The Group employed an average of 45,408 people in FY 2022 (FY 2021 39,853). Through its diversity policy, the Company seeks to ensure that every employee, without exception, is treated equally and fairly and that all employees are aware of their responsibilities.

Our policies and procedures fully support our disabled colleagues. We take active measures to do so via:

- a robust reasonable adjustment policy;
- disability-specific online resources (accessible via the Group's online recruitment system); and
- processes to ensure colleagues are fully supported.

The Group is responsive to the needs of its employees. As such, should any employee of the Group become disabled during their time with us, we will actively retrain that employee and make reasonable adjustments to their working environment where possible, in order to keep the employee with the Group. It is the policy of the Group that the recruitment, training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee engagement

Mitchells & Butlers engages with its employees on a regular basis and in a number of ways to suit their different working patterns and this is discussed further in the Report on Directors' remuneration on page 89. Engagement includes:

- line manager briefings;
- communications forums and roadshows held by functions or brands across the Company;
- a dedicated intranet for the Retail Support Team and Retail Management;
- 'Mable', the Mitchells & Butlers online learning platform;
- email news alerts;
- focus groups;
- weekly bulletins – specifically targeted at retail house managers and mobile workers; and
- employee social media groups.

Details of the financial and economic factors affecting the performance of the Company are shared with all employees at the appropriate time using the methods listed above. In line with the requirements of the 2018 Code, the Board agreed that Dave Coplin will act as a link to the Board for employees in order to strengthen the 'employee voice' at the Board. This involves attending employee forums, focus groups and providing feedback on values and behaviours, employee development and upskilling and ensuring that feedback is listened to and acted upon where appropriate.

As part of this role, Dave Coplin uses the insight he has gained to provide the Board with an employee perspective across a range of issues, which the Board considers to be very valuable. Dave meets regularly with senior members of the Human Resources team and is also supporting the business in how it may utilise technology to better communicate with employees. In addition, as a member of the Remuneration Committee his insight is also very helpful in the context of Executive pay.

Updates on employee matters are normally presented to the Remuneration Committee or Board at least twice a year and cover a wide range of issues. Over the course of FY 2022 these updates have focused on employee engagement and specifically detailed feedback from the two engagement surveys held during the year, the recruitment market, pay and conditions and flexibility and working hours.

The Remuneration Committee is also informed where significant changes are proposed to employment conditions and policies elsewhere in the Group, or if there are important employee-related projects underway. More detail on how the Remuneration Committee takes into account wider workforce policies and the views of employees in relation to Executive pay can be found on page 97.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in pubs, bars and restaurants and engagement surveys for all employees to the Mitchells & Butlers Business Forum. Business Forum representatives collect questions from employees across the Company and put them to members of the Executive Committee. The questions and answers are communicated to employees.

The Mitchells & Butlers 'People Promise'

Our clearly defined people promise enables us to differentiate our employment proposition, and the diagram below illustrates in more detail the elements of our people promise. Clearly, pay is a very important element but other factors also play an important part of the overall value proposition, which is known internally as our 'People Promise'.

Our people value opportunities for progression, challenge within their role, fair rewards and a safe working environment. Our research has also shown that, in normal times, unlike some industries and employers, Mitchells & Butlers offers a number of important differentiators which our employees value:

- **Flexibility and convenience:** Mitchells & Butlers has always promoted a flexible approach to working from the frontline through to our support centre. The Covid-19 pandemic has further demonstrated how flexibility and convenience are ever more important factors for employees across all employee groups.
- **More job satisfaction:** As part of our research, we learnt that working for Mitchells & Butlers gave employees a strong sense of family and that employees put a high value on the day-to-day variety of work. This comes through very strongly in our survey results.
- **A great atmosphere:** Undoubtedly working in hospitality, especially at the frontline, is hard work. However, we also know that it can be great fun. Our aim at Mitchells & Butlers is to make the working environment as fun and friendly as possible whilst ensuring that guests receive great service.

It remains the case that employees have begun to reassess what is important to them and their work following the Covid-19 pandemic and now in response to cost of living pressures. In addition, other industries have been able to demonstrate how they now can offer careers that provide some elements of our proposition in a way not seen before, for example through very flexible working arrangements. It is therefore important to review and refresh our research so that our 'People Promise' evolves and remains relevant to current and prospective team members.



Share ownership

Mitchells & Butlers is keen to encourage greater employee involvement in the Group's performance through share ownership. It operates two HMRC approved all-employee plans, which are the 2013 Sharesave Plan and the Share Incentive Plan (which includes Partnership shares). Further details on the plans are set out in the Report on Directors' remuneration on pages 89 to 106.

The Company also operates three other plans on a selective basis, which are the 2013 Performance Restricted Share Plan, the 2013 Short Term Deferred Incentive Plan and the Restricted Share Plan 2021. The 2013 Sharesave Plan, the Share Incentive Plan and the 2013 Short Term Deferred Incentive Plan will all reach the end of their respective lives for grant purposes in 2023 and accordingly, resolutions for their respective renewal will be put to the 2023 Annual General Meeting. Full details are set out in the accompanying Notice of Meeting.

During the year, the Company has remained within its headroom limits for the issue of new shares for share plans as set out in the rules of the above plans. The Company uses an employee benefit trust to acquire shares in the market when appropriate to satisfy share awards in order to manage headroom under the plan rules. A total of 1,000,000 shares in the Company were purchased by the employee benefit trust during FY 2022.

Responsible alcohol policy

Mitchells & Butlers operates the Challenge 21 policy in all our businesses across England and Wales, a Challenge 25 policy in our Scottish businesses and similar policies in Northern Ireland and Germany. The policy requires that any guest attempting to buy alcohol who appears under the age of 21 in England, Wales or Northern Ireland (or 25 in Scotland) must provide an acceptable form of proof of age ID to confirm that they are over 18 before they can be served. We employ similar policies across the various regions of Germany in order to comply with local laws.

All of these policies form part of our regular training for our employees on their responsibilities for serving alcohol.

Political donations

The Company made no political donations during the year and intends to maintain its policy of not making such payments. It will, however, as a precautionary measure to avoid inadvertent breach of the law, seek shareholder authority at its 2023 AGM to make limited donations or incur limited political expenditure, although it has no intention of using the authority.

Modern Slavery Act 2015

In accordance with the requirements of the Modern Slavery Act, during the period the Board reviewed, updated and approved the Company's Modern Slavery Act compliance statement, which was signed on behalf of the Board by Phil Urban. A copy of that statement can be accessed on the Company's website, www.mbplc.com.

This statement covers the Company's commitment to operating and conducting its business in such a way that human rights are respected and protected. Mitchells & Butlers will not permit or condone any form of slavery, servitude, forced or compulsory labour or human trafficking. It clearly states how the Company is committed to ensuring that there is no modern slavery or human trafficking in its supply chains or in any part of its businesses and this is reflected in the Mitchells & Butlers Modern Slavery & Human Trafficking Policy and Supplier Code of Conduct. The statement also covers due diligence processes for slavery and human trafficking, supply chain accountability, Company accountability (including ethical and socially responsible conduct in the workplace), training and information and reviewing key performance indicators to measure how effective we have been to ensure that slavery and human trafficking is not taking place in any part of our business and supply chain, in terms of record keeping and actions taken to strengthen supply chain due diligence, auditing and verification.

Phil Urban has ultimate responsibility for employment-related issues and he also oversees matters relating to human rights including the implementation of the Modern Slavery Act throughout the Group.

Annual General Meeting

The notice convening the Annual General Meeting is contained in a circular sent to shareholders with this report and includes full details of the resolutions proposed.

Auditor

A competitive audit tender took place in June 2021, following which KPMG LLP was selected to become the auditor to the Company in respect of FY 2022 and this was approved by shareholders at the 2022 Annual General Meeting. KPMG LLP has expressed its willingness to continue in office as auditor of the Company and its reappointment will be put to shareholders at the AGM.

Funding and liquidity risk

In order to ensure that the Group's long-term funding strategy is aligned with its strategic objectives, the Treasury Committee regularly assesses the maturity profile of the Group's debt, alongside the prevailing financial projections and three year plan. This enables it to ensure that funding levels are appropriate to support the Group's plans.

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) and £150m of unsecured committed bank facilities (reduced by £100m during the prior year as part of the Open Offer and refinancing). Further information regarding these arrangements is set out on page 58 and is also included in note 4.1 to the financial statements on page 148. The terms of the securitisation and the bank facilities contain a number of financial and operational covenants. Compliance with these covenants is monitored by Group Treasury. As set out on page 52 (Assessment of viability) and the note to the financial statements on going concern, as part of the refinancing arrangements entered into during FY 2021 a number of waivers and amendments were agreed, as described on page 121.

The Group prepares a rolling daily cash forecast covering a six-week period, a four-weekly update on six-month forward-looking cash forecasts and an annual cash forecast by period. These forecasts are reviewed and used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements is in place to ensure the optimum liquidity position is maintained. Committed facilities outside of the securitisation are sized to ensure that the Group can meet its medium-term anticipated cash flow requirements. Short-term cash management is optimised through regular discussions considering projected cash inflows and outflows.

During the year, the Group completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a SONIA-based rate in respect of sterling and a SOFR-based rate in respect of US dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap and liquidity facility providers (using amended reference rates consistent with those agreed under the bonds). The unsecured committed facility was arranged on a SONIA basis in February 2021, so did not require any further amendment.

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.

Events after the balance sheet date

There are no post-balance sheet events to report.

Greenhouse gas ('GHG') emissions statement

The Group generates GHG emissions throughout its estate of bars and restaurants for heating, cooling, lighting and catering including the refrigeration and preparation of food and drink.

Both location and market-based GHG emissions per £m turnover have decreased by 32% in FY 2022 in comparison to FY 2021. However, the absolute emissions for Scope 1 and 2 (location and market-based) emissions have increased by 41%. This is due to the following key factors:

1. During the first quarter of FY 2021, Covid-19 regulations were in place and lockdowns were imposed which restricted operations across the estate and led to our sites being closed to the public for prolonged periods during what is usually a peak trading season. This resulted in a reduction in energy use and subsequent emissions, as well as a significant reduction in turnover. Both factors had an impact on the FY 2021 intensity ratio.
2. Operational levels returned to normal during FY 2022, and as a result we have seen a significant year-on-year increase in absolute emissions as growth in trading levels led to more energy being consumed across the estate.
3. A 32% reduction in the intensity ratio has been realised through the efficiency measures that we have rolled out, in combination with the significant increase in revenue generated in FY 2022.

We have also continued with our commitment to purchase a green, REGO-backed supply of electricity, with all UK sites supplied by electricity generated from renewable sources. Further information on our sustainability targets can be found on pages 32 and 33.

Table 3: Mitchells & Butlers' carbon reporting disclosure

Assessment parameters	
Assessment year	FY 2022
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during FY 2022 were included.
Scope	<p>General classifications of greenhouse gas emissions scopes based on the GHG protocol and ISO14064-1:2006 within the context of the Group's operations are as follows:</p> <p>Scope 1 – direct greenhouse gas emissions from sources that are owned or controlled by the Group, e.g., fuel combustion of varying types, occurs during kitchen activity and to generate heating and domestic hot water most commonly through natural grid supplied gas, but also some LPG (Liquefied Petroleum Gas) and oil. Real fires fuelled by logs or coal are also used to supplement customer comfort and enhance ambience.</p> <p>Scope 2 – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling.</p> <p>Scope 3 – indirect emissions from activities up and down the Group's value chain but occurring from sources not owned or controlled by the Group.</p> <p>This assessment focuses on Scope 1 and 2 emissions only (Scope 3 is optional under the current regulations).</p>
Consistency with the financial statements	<p>Scope 1 and 2 emissions are reported for both FY 2022 and FY 2021 on a financial year basis.</p> <p>Franchise sites are excluded as they are responsible for arranging and paying for their own energy.</p> <p>Alex sites in Germany are included. Emissions are based on UK-average emissions per outlet multiplied by the number of Alex sites. These sites make up the non-UK aspect of this report.</p>
Exclusions	<p>Scope 1 – Wood, charcoal, and kerosene are excluded because each of these amounts to less than 1% of total emissions which falls below the materiality threshold.</p> <p>Scope 1 – Corporate mileage is excluded because collectively it amounts to less than 1% of total emissions which falls below the materiality threshold.</p>
Emission factor data source	All carbon emission factors used are sourced from the UK Government GHG conversion factors for company reporting 2022.
Assessment methodology	Environmental Reporting Guidelines: including Streamlined Energy and Carbon Reporting Guidelines March 2019.
Materiality threshold	All emission types estimated to contribute >1% of total emissions are included.
Estimation	<p>Scope 1 – Fugitive Emissions are partially estimated due to unknown quantities and gas types for some sites.</p> <p>Scope 1 & 2 – Electricity & Gas consumption uses a pro-rata estimate for supplies that do not have complete data in the reporting year.</p>
Intensity threshold	<p>Emissions are stated in tonnes CO₂e per £m revenue. This intensity ratio puts emissions into context given the scale of the Group's activities and enables comparison with prior year performance.</p> <p>The intensity ratio for FY 2021 has been revised to include global as well as UK and offshore total emissions.</p>
Target	Emissions during FY 2021 are provided for comparative purposes.

Energy efficiency action taken

With the easing of Covid regulations and a return to normal operations, we had forecast an increase in energy consumption across the estate in FY 2022. We therefore took the initiative to appoint energy ambassadors in every geographical district to effectively manage our energy consumption. Our energy ambassadors are trained to support General Managers to investigate and resolve issues resulting in energy exceedances and to identify opportunities for optimising energy use and reducing consumption. We have also invested in improving the efficiency of our heating systems and in technology to reduce consumption, including voltage optimisers.

Commentary

Both location and market based reporting methodologies are used. Scope 2 location-based emissions use UK grid average emissions. Scope 2 market-based emissions account for the electricity purchased within the UK portfolio from REGO backed sources which result in zero emissions.

For transparency we have reported two intensity ratios: a location-based ratio and a market-based ratio for both Scope 1 and 2 emissions.

Global GHG emissions and energy use data for FY 2022

	Current reporting year FY 2022			Comparison reporting year FY 2021			% Change year-on-year
	UK and offshore	Global (excluding UK and offshore)	Total	UK and offshore	Global (excluding UK and offshore)	Total	
Scope 1 tCO ₂ e (location-based)	84,892	2,386	87,278	60,234	1,652	61,886	41%
Scope 2 tCO ₂ e (location-based)	63,876	1,795	65,671	45,205	1,240	46,445	41%
Total Scope 1 & 2 emissions tCO ₂ e (location-based)	148,768	4,181	152,949	105,439	2,892	108,331	41%
Total Scope 1 & 2 emissions tCO ₂ e (market-based)	84,892	4,181	89,073	60,371	2,892	63,263	41%
Energy Consumption used to calculate the above emissions: kWh	742,837,490	20,879,255	763,716,745	512,119,253	14,048,159	526,167,412	45%
Intensity Ratio: tCO ₂ e/turnover(£m) – (location-based) ^a	–	–	69	–	–	102	-32%
Intensity Ratio: tCO ₂ e/turnover(£m) – (market-based) ^a	–	–	40	–	–	59	-32%

a. Intensity ratios based on the turnover for FY 2021 of £1,065m and for FY 2022 of £2,208m.
Note: intensity ratio for FY 2021 has been revised to include global as well as UK and offshore total emissions.

Disclosure of information to auditor

Having made the requisite enquiries, so far as the Directors are aware, specifically those who are a Director at the date of approval of the Annual Report, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditor is unaware and each Director has taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report, which includes the Strategic Report, has been approved by the Board and is signed on its behalf.

Andrew Freeman

Group General Counsel and Company Secretary
6 December 2022

Statement of Directors' responsibilities in respect of the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report and Accounts and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Report on Directors' Remuneration and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The Auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Tim Jones
Chief Financial Officer
6 December 2022



Corporate governance statement

“This statement sets out our report to shareholders on the status of our corporate governance arrangements.”

Bob Iwell
Chairman

The Board is responsible for ensuring that the activities of the Group and its various businesses are conducted in compliance with the law, regulatory requirements and rules, good practices, ethically and with appropriate and proper governance and standards.

This includes reviewing internal controls, ensuring that there is an appropriate balance of skills and experience represented on the Board, compliance with the applicable UK Corporate Governance Code, which is issued by the Financial Reporting Council and which is available at www.frc.org.uk, and maintaining appropriate relations with shareholders and other stakeholders.

The latest financial information for Mitchells & Butlers and its Group of companies is included in the 2022 Annual Report and Accounts (of which this Corporate Governance Statement forms part) and which is available online at: www.mbplc.com/investors.

Shareholder relations

The Board recognises that it is accountable to shareholders for the performance and activities of the Company. The Company regularly updates the market on its financial performance, at the half year and full year results in May and December respectively, and by way of other announcements as required. The content of these updates is available by webcast on the Company's website www.mbplc.com, together with general information about the Company so as to be available to all shareholders. The Company has a regular programme of dialogue with its larger shareholders which provides an opportunity to discuss, on the basis of publicly available information, the progress of the business.

On a more informal basis, the Chairman, the Chief Executive and the Chief Financial Officer regularly report to the Board the views of larger shareholders about the Company, and the other Non-Executive Directors are available to meet shareholders on request and are offered the opportunity to attend meetings with larger shareholders.

The AGM provides a useful interface with shareholders, many of whom are also guests in our pubs, bars and restaurants. All proxy votes received in respect of each resolution at the AGM are counted and the balance for and against, and any votes withheld, are indicated.

At the January 2022 Annual General Meeting, the Company had four resolutions where 20% or more of votes cast were cast against the resolution. These were in respect of the annual report on remuneration, and the re-election of Bob Iwell (Chairman), Eddie Irwin and Josh Levy, and resulted in the Company featuring in the Investment Association's public register of shareholder dissent. The Company's response to its inclusion in that register can be found in the register itself and on the Company's website www.mbplc.com.

The UK Corporate Governance Code (the 'Code') contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, the Code specifically recognises the concept of 'comply or explain' in relation to divergences from the Code which reflect the specific circumstances of individual companies.

"The Code does not set out a rigid set of rules; instead, it offers flexibility through the application of Principles and through 'comply or explain' Provisions and supporting guidance. It is the responsibility of boards to use this flexibility wisely and of investors and their advisors to assess differing company approaches thoughtfully."

Susan Murray stepped down from the Board following the AGM on 25 January 2022, and Amanda Brown was appointed to the Board on 4 July 2022. The Company confirms that the external search consultancy services of Spencer Stuart (an external search consultancy the Company has engaged from time to time) were engaged in connection with Amanda's appointment, and that there is no other connection between Spencer Stuart and the Company, its Board, or any of its Directors. No other changes to the Board were made during the year and the Board currently consists of nine members, three of whom are independent Non-Executive Directors (including two female independent Non-Executive Directors). A more detailed explanation is set out at page 75.

Corporate governance arrangements during FY 2022 in response to the ongoing effects of Covid-19 and the emergence of the Omicron variant

After the removal of the pandemic-related restrictions, during FY 2022 the Company reverted to its normal pre-pandemic corporate governance arrangements, and the Board maintained its regular set of scheduled meetings, with adjustments and flexibility to reflect the often-changing operating and trading environment, particularly in relation to supply chain shortages and the Omicron variant. The details of the numbers of meetings of the Board and the Audit and Remuneration Committees in the period are set out on page 78.

The Executive Committee, which is the principal operational decision-making forum of the Group, continued with its monthly cycle of meetings in FY 2022, and the output of its meetings was reported to the Board. The Executive Committee addressed in particular all stakeholder arrangements including the relationships and dialogue with employees, shareholders, supplier arrangements and the Group's pension arrangements.

Employee wellbeing arrangements and workplace implications:

The Company has an established wellbeing strategy that encompasses five pillars of wellbeing; social, environmental, physical, mental and financial. Within these pillars there are a range of resources and tools available for line managers and employees to access, including:

- our employee assistance programme which is run by the Licensed Trade Charity. They operate a free, 24/7 confidential helpline and a website available to all employees.
- an online wellbeing centre that provides access to workout videos, nutritional advice, financial wellbeing tools and mindfulness and meditation videos and articles.
- financial wellbeing tools and support via Nudge.
- mental health training available for all line managers to assist them in supporting their teams. In addition the business has trained a number of mental health first aiders.
- wellbeing days and events, which are now often held virtually and this will enable all employees to participate in the various activities and workshops.

Corporate governance code reporting

For FY 2022, the Company has reported under the 2018 Code. Its requirements are:

1. enhanced board engagement with the workforce and wider stakeholders, including describing how the Company complies with its obligations to take into account stakeholder views pursuant to Section 172 of the Companies Act 2006;
2. demonstration of a clear business strategy aligned with a healthy corporate company culture;
3. a high-quality and diverse board composition; and
4. proportionate executive remuneration that supports the long-term success of the business.

The Board established a Corporate Responsibility Committee in June 2019. The purpose of this Committee is to allow more executive, leadership and functional management involvement in key areas of significant importance including environmental impacts of the Group's activities, community relationships and the role of the Company in society. The existence of this Committee demonstrates a significant commitment to the enhancement of governance in general and matters such as stakeholder engagement. More details of this Committee and its membership are set out on page 81 and its Terms of Reference are on the Company's website www.mbplc.com.

Alignment to the 2018 Code

As part of its alignment with the 2018 Code, the following operational and administrative framework is in place.

1. Enhanced Board engagement with the workforce and wider stakeholders

The 2018 Code recommends that the Board should consider wider stakeholder views, in particular implementing arrangements for gathering the views of the workforce. The 2018 Code permits a designated Non-Executive Director to fill this role and in 2019 the Board designated Dave Coplin for this role. The purpose of this appointment under the 2018 Code is to gather employee views, ensure employee views are taken into account in Board discussions and decision-making, and engage with the workforce to explain how executive remuneration aligns with the Company's remuneration policy. This commenced in FY 2019 with Dave Coplin being introduced to those executive managers who could help ensure that meetings and site visits were effective. Progress has continued to date, albeit delayed during lockdown, given social distancing requirements.

Mitchells & Butlers has an Employee Forum with elected representatives which normally meets with the Executive Directors and members of the Executive Committee twice a year. Dave Coplin also attends these meetings. During FY 2022 two meetings were held in March and September. Questions from the workforce in general are sought through the intranet to seek areas of concern or enquiry and to enable the Company to respond. The Employee Forum will, from time to time, be provided with an overview of how executive pay is aligned with the Company's strategic objectives. The Terms of Reference of the Employee Forum reflect this. Further details on employee engagement can be found in the Report on Directors' remuneration on page 89.

The results of regular Board roadshows are used to update managers on performance and the latest developments affecting the Group, and employee feedback is included in Board papers where appropriate as part of the decision-making process.

2. A clear business strategy aligned with a healthy corporate company culture

In July 2018 the Financial Reporting Council published 'Guidance on the Strategic Report', strengthening the link between the purpose of the Strategic Report and the Directors' duty under Section 172 of the Companies Act 2006, to promote the success of the Company. The requirement under the Companies Act 2006 is that the Strategic Report must inform members of the Company, and help them assess, how the Directors have performed their duty under Section 172 to promote the success of the Company. The revised guidance encourages companies to consider the broader matters that may impact upon the performance of the Company over the longer term including the interests of wider stakeholders, and it is now established Mitchells & Butlers practice that strategic proposals put to the Company's Board meetings include a requirement to consider the Directors' duties under Section 172. A detailed explanation of the manner in which the Board has discharged its responsibilities under Section 172 is set out in the Compliance Statements on pages 53 and 54.

The specific provisions of Section 172 require Directors to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, have regard to the interests of other stakeholders. The specific requirements of Section 172 are that Boards should consider:

- the likely consequences of decisions in the long term;
- the interests of the Company's employees;
- the fostering of business relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The 2018 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. The 2018 Code sets out a series of aspects to be taken into account in demonstrating the Board has complied with its Section 172 responsibilities. These are listed below, together with Company procedures which align Mitchells & Butlers' corporate behaviour with the spirit and values of the 2018 Code and how the Board has employed its oversight of the Company's purpose. This purpose is set out in more detail in the Strategic Report.

a. Culture

Mitchells & Butlers has in place 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 and considering decisions and proposals and encourages all levels of the organisation to do so.

b. Strategy

In demonstrating that the Board is promoting the success of the Company and taking decisions with regard to their long-term impact, the Board must ensure it has in place, and regularly reviews, its agreed strategy.

Developments arising from the strategy review are followed up, documented and, on a regular basis, the Board reviews whether the Company is operating in line with that strategy and/or there needs to be a revision of the strategy to reflect external, and possibly internal, changes in the dynamics of the business. Board papers refer to whether they reflect a proposal that is aligned to, or diverges from, the agreed strategy.

Principle B and Provisions 1 and 2 of the 2018 Code require the Board to:

- describe how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the Company's business model and how its governance contributes to the delivery of its strategy;
- establish the Company's purpose, values and strategy, ensure that these and its culture are aligned and describe the activities the Board takes to monitor and implement this culture; and
- describe the Company's approach to investing in and rewarding its workforce.

Details of how the Board achieves these are given in the Strategic Report on pages 10 to 58.

c. Training and awareness

There is an induction process for all Directors on appointment and the Group General Counsel and Company Secretary is available to all Directors, whether of the Company or any of the subsidiaries, for consultation and guidance on matters of governance in relation to any aspects of the affairs of any part of the Group. As circumstances or new areas develop, whether in the operations of the business or externally, appropriate training will be considered to ensure that each Director is involved in decision-making and oversight with the benefit of the correct amount of knowledge as to what is relevant for consideration.

The induction process ensures that Directors are aware of, and understand, the requirements under Section 172. Nevertheless, in April 2019, a comprehensive guide was sent to all subsidiary Directors to provide training below Board level in relation to Section 172 requirements, focusing on how such considerations should be documented in the future, to ensure a proper understanding of what needs to be considered and what evidence is required to be presented when putting proposals to the Board.

Ongoing training and guidance on their responsibilities continues to be provided to subsidiary company Directors.

d. Information

Board paper procedures now contain specific references to the factors referred to in Section 172 of the Companies Act 2006, so they can be brought to the Board's attention where appropriate.

e. Policies and processes

The business has an existing comprehensive suite of policies and processes across a wide spectrum of its operations and practices and these are updated, revised and re-communicated regularly.

f. Stakeholder engagement

Engagement with the workforce is addressed above and engagement with guests is dealt with through the Guest Health initiatives and this is explained in our Value Creation story on pages 38 to 41. Engagement with key, critical suppliers is addressed through the supplier segmentation tiering process where we consult with suppliers on a regular basis. This varies from monthly interaction to annual reviews, depending on where the supplier appears on the Company's tier 1 to tier 4 ranking (which is a multi-factor process involving criticality, volume, spend size and availability of substitute products).

3. Board composition and diversity

a. Board composition

The Board is currently comprised of nine members whose biographies are outlined on pages 62 and 63. These are the Chairman, Chief Executive and Chief Financial Officer, three independent Non-Executive Directors and three Non-Executive Directors nominated by the Company's largest shareholders who are part of the Odyzean Group. Of these, two independent Non-Executive Directors, representing 22% of the Board's Directors are female, one of whom is also the Senior Independent Director. The Chairman, Bob Ivell, has served on the Board since May 2011. Susan Murray did not put herself forward for re-election at the AGM on 25 January 2022 and with effect from the end of the 2022 AGM, Jane Moriarty replaced her as Senior Independent Director.

The Board acknowledges that this level of gender diversity and the Chairman's period of tenure on the Board do not meet the expectations of the Davies Report, the Hampton-Alexander Review, the best practice recommendations of the UK Corporate Governance Code or some shareholders and, whilst this overall composition of the Board remains a matter for continuous review, it should be noted that in its Open Offer Prospectus, the Company confirmed that the Odyzean Group had indicated that it would disregard specific corporate governance requirements around tenure and that it expected the Board to focus on retaining and acquiring skill sets amongst the Non-Executive Directors that are required to optimise the development of the business going forward.

The Company has not received any indication of a change in approach on these issues by the Odyzean Group.

b. Board diversity

Principle J of the 2018 Code states that boards are encouraged to 'promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths' through their appointments and succession planning. The purpose is to ensure that there is a balance of views from different genders and other experiences and skill sets around the board table so that decision-making can be made with good oversight of all relevant factors.

Dave Coplin has been identified by the Board as the Director responsible for oversight of the Company's Diversity and Inclusion arrangements. The Company has had a Board Diversity Policy in place for some time, but during FY 2019 it was also agreed that talent pipeline presentations to the Board should include the extent to which diversity aspects have been taken into account in development plans/recruitment, and that ethnicity and disability reporting should be addressed, to the extent that the Company has reliable data. Talent pipeline presentations were put on hold during Covid-19 restrictions, but resumed in FY 2021 and continued in FY 2022.

Gender Pay Gap data is already overseen by the Remuneration Committee and details are set out on page 95 of the Report on Directors' remuneration.

4. Proportionate executive remuneration

This is dealt with on pages 95 and 104 of the Report on Directors' remuneration.

Corporate governance

The Board is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year ended 24 September 2022 with all the Provisions and best practice guidance of the 2018 Code except certain specific aspects related to Chairman's tenure, Board composition, the constitution of Board Committees and a Board effectiveness review. This Corporate Governance Statement addresses the areas where, for reasons specific to Mitchells & Butlers, there are divergences from the 2018 Code as described below.

The Audit Committee report and Nomination Committee report, which are set out on pages 85 to 88 and page 80 respectively of the Annual Report, also form part of this Corporate Governance Statement and they should all be considered together.

The Board recognises the importance of good corporate governance in creating a sustainable, successful and profitable business and details are set out in this statement of the Company's corporate governance procedures and application of the principles of the 2018 Code. There are, however, a small number of areas where, for reasons specifically related to the Company, the detailed Provisions of the 2018 Code were not fully complied with in FY 2022. These areas are kept under regular review. A fundamental aspect of the 2018 Code is that it contains best practice recommendations in relation to corporate governance yet acknowledges that, in individual cases, these will not all necessarily be appropriate for particular companies. Accordingly, the 2018 Code specifically recognises the concept of 'comply or explain' in relation to divergences from it.

Compliance with the Code

Except for the matters which are explained below (in line with the 'comply or explain' concept), the Company complied fully with the Principles and Provisions of the 2018 Code throughout the financial year in respect of which this statement is prepared (and continues to do so as at the date of this statement).

Explanation for non-compliance with parts of the Code

The current Board consists of the two Executive Directors and the Chairman, the three Independent Non-Executive Directors and three representative directors of the Odyzean Group which holds approximately 57% of the issued share capital. The Board does not currently intend to change this arrangement, and believes that, despite not strictly complying with the 2018 Code, the current structure strengthens corporate governance as it is both representative of the Company's shareholder base and demonstrates the Odyzean Group's ongoing commitment and support to the overall strategy and management of the Company.

The assessment of the composition of the Board and its Committees and the Chairman's tenure should be considered in the context of the explanation already set out under the heading of 'Board composition and diversity' on page 75.

During the year, there were four separate areas of divergence from full compliance with the 2018 Code, as set out below by reference to specific paragraphs in the 2018 Code.

1. Chairman's tenure (Provision 19)

Provision 19 of the 2018 Code states:

"The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided."

Bob Ivell was appointed to the Board in May 2011 and, as such, his appointment extended beyond the normal nine-year tenure, which expired in May 2020. The Board had already reviewed this in advance in 2019 and concluded that it was appropriate that he should remain in place as Chairman. The extraordinary events of 2020, which continued into 2021, and the ongoing challenges which the Group has faced as a result of the Covid-19 pandemic, have made it clear that the decision to confirm that Mr Ivell should remain in place, allowing him to co-ordinate the Board's oversight of the senior executive team's response to the pandemic, was the correct one.

Mr Ivell's extensive industry experience and his involvement with such influential bodies as UK Hospitality, have been of great assistance to the Company in addressing the ongoing challenges of energy prices, inflationary cost pressures, the demanding trading environment and dampened consumer confidence. The requirement for a stable and experienced Board in such circumstances, and it being an inappropriate time for the Board to be considering changes in the existing arrangements, meant that no further consideration was given in FY 2022 to Provision 19 of the 2018 Code, in relation to Bob Ivell's Chair tenure. This will remain the case while the Company continues to deal with the rebuilding of its business.

2. Composition of the Board (Provision 11)

Throughout the year, Provision 11 of the 2018 Code, which requires that at least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent, was not complied with. Accordingly, this had consequential implications on the composition of the Nomination, Audit and Remuneration Committees.

The Board does not comply fully with the requirement for at least half of its members to be independent, due to the presence of three shareholder representatives on the Board, representing members of the Odyzean Group. These shareholders maintain a dialogue via their representatives on the Board, all of whom are careful to ensure that there is no conflict between that role and their duty to the Board and other shareholders.

The members of the Odyzean Group made extremely significant investments in the Company and currently hold approximately 57% of the Company's issued share capital. The Board considers their investment objectives to be fully aligned with those of the Group and of other shareholders. The Board maintains excellent relations with its major shareholders and considers their commitment to be a significant factor in the ongoing stability of the Board, particularly as a result of their strong support of the Board's long-term strategy, including the recent Ignite initiatives. Their continued investment and presence on the Board adds value as the Group works towards common goals, and in pursuit of the Company's published strategy. In particular, the members of the Odyzean Group have been very supportive of the Board's actions when the Company had to deal with the forced closure of the business during the Covid-19 pandemic, followed by the need for an Open Offer in FY 2021, which they subscribed for in full. Their respective representatives continued to offer valuable advice and experience while the Board considered options in the face of such unprecedented circumstances.

The Board intends to continue to work closely with the representatives of its major shareholders to further the interests of the Company. The Company is not aware of any changes being proposed to the shareholder representative profile of the Board in the immediate future.

3. Constitution of Committees

Throughout FY 2022, the Company had (and continues to have) fully functioning Nomination, Audit and Remuneration Committees as required by the 2018 Code.

(i) Nomination Committee (Code Provision 17)

The Nomination Committee was not fully compliant with the Code in FY 2022, in that it did not contain a majority of independent Non-Executive Directors as required by Code Provision 17. This occurred for a short period only, which started from the period following Susan Murray's leaving the Board on 25 January 2022, and ceased following the appointment of Amanda Brown to the Nomination Committee on 4 July 2022. At the year end of 24 September 2022, the Nomination Committee was fully compliant with 2018 Code Provision 17.

(ii) Audit Committee (Code Provision 24)

For part of the year, the Audit Committee was not fully compliant with Provision 24 of the 2018 Code, which specifies that the Audit Committee should consist of independent Non-Executive Directors, with a minimum membership of three. Susan Murray stood down from the Audit Committee on 25 January 2022 and Amanda Brown was appointed to the Audit Committee on 4 July 2022, so for the period following Susan's resignation to the date of Amanda's appointment, the requirement for three independent Non-Executive Directors on the Audit Committee was not met. At the year end of 24 September 2022, the Audit Committee was fully compliant with Provision 24 of the 2018 Code.

(iii) Remuneration Committee (Code Provision 32)

The Remuneration Committee is not fully compliant with the relevant Provisions of the 2018 Code. Provision 32 of the 2018 Code specifies that the Remuneration Committee should consist of independent Non-Executive Directors and the Remuneration Committee included the presence of a representative of a major shareholder who is a member of the Odyzean Group. On 25 January 2022, Susan Murray resigned from the Remuneration Committee and Amanda Brown was appointed to the Remuneration Committee on 4 July 2022. From the start of FY 2022 to the date of the appointment of Amanda Brown as Committee Chair on 4 July 2022, the office of Chair of the Remuneration Committee was vacant, and during that period, remuneration matters were considered by the Board. As set out on page 65, under the terms of the Deed of Appointment between the Company and Piedmont Inc., Piedmont is entitled to have a Director attend, and receive all the papers relating to, meetings of the Remuneration Committee. The Board has, in the circumstances, agreed that Mr Levy should be a member of the Committee. The Board has carefully considered the implications of this arrangement and has concluded that it constitutes a valid exception under the 'comply or explain' regime of the 2018 Code, in that the shareholder concerned is committed to the progression and growth of the Company, has made a substantial financial commitment and is fully supportive of the Group's strategy. All the shareholder representatives have significant commercial and financial experience and make a substantial contribution to the Committees and the Group remains fully committed to working with them on matters affecting the Group and its activities in the future.

4. Board Effectiveness Review (Provision 21)

In light of the circumstances in which the Company was operating, and as reported on page 76, the Chairman, has kept the skills, contributions and experience of the Board members under close review throughout FY 2022.

An externally facilitated Board evaluation is recommended to be carried out every three years and last took place in FY 2018. In view of the ongoing issues caused by Covid-19 and its knock-on effects which are still affecting the business together with the energy price challenges and supply chain issues arising from the war in Ukraine, the Board took the decision not to proceed with an evaluation during FY 2022, either internal or externally facilitated. The Board will consider if it is appropriate to carry out such an evaluation, whether internal or using an external facilitator, in FY 2023. The information required by Disclosure Guidance and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 85 to 88. The information required by DTR 7.2 is set out in this Corporate Governance Statement, other than that required under DTR 7.2.6 which is set out in the Directors' report on pages 64 to 71.

Board composition

The Board started the year with nine Directors. During the year Susan Murray resigned and Amanda Brown was appointed to the Board, and the table on page 78 lists the composition of the Board during the year.

As indicated on page 76, at the present time, no further significant changes to the leadership and oversight of the Group by its Board and its Committees are currently being considered due to the continuing uncertainties around the Company's trading environment caused by the need to re-establish the business and deal with supply chain shortages.

The Board

The Board is responsible to all stakeholders, including its shareholders, for the strategic direction, development and control of the Group. It approves strategic plans and annual capital and revenue budgets. It reviews significant investment proposals and the performance of past investments and maintains oversight, supervision and control of the Group's operating and financial performance. It monitors the Group's overall system of internal controls, governance and compliance and ensures that the necessary financial, technical and human resources are in place for the Company to meet its objectives. Our website includes a schedule of matters which have been reserved for the main Board.

During FY 2022 there were eight Board meetings. There were also five meetings of the Audit Committee, one meeting of the Remuneration Committee and no meetings of the Nomination Committee. The table on the following page shows attendance levels at the Board and Committee meetings held during the year; the numbers in brackets confirm how many meetings each Director was eligible to attend during the year.

Full attendance was recorded for all Directors in respect of all Board and Committee meetings held during FY 2022, but where Directors are unable to attend a meeting (whether of the Board or one of its Committees), they are provided with all the papers and information relating to that meeting and are able to discuss issues arising directly with the Chairman of the Board or Chair of the relevant Committee.

In addition, the Board members ordinarily meet more informally approximately three or four times a year and the Chairman and the Non-Executive Directors ordinarily meet without the Executive Directors twice a year. There are eight Board meetings currently planned for FY 2023.

The Company Secretary's responsibilities include ensuring good information flows to the Board and between senior management and the Non-Executive Directors. The Company Secretary is responsible, through the Chairman, for advising the Board on all corporate governance matters and for assisting the Directors with their professional development. This includes regular corporate governance and business issues updates, as well as the use of operational site visits and the provision of external courses where required. The Company Secretary facilitates a comprehensive induction for newly appointed Directors, tailored to individual requirements and including guidance on the requirements of, and Directors' duties in connection with, the 2018 Code and the Companies Act 2006 as well as other relevant legislation.

The appointment and removal of the Company Secretary is a matter reserved for the Board.

Attendance levels at Board and Committee meetings

Directors who served during the year	Board	Audit Committee	Remuneration Committee	Nomination Committee
Bob Ivell	8 (8)	n/a	1 (1)	n/a
Keith Browne	8 (8)	n/a	n/a	n/a
Amanda Brown (appointed 4 July 2022)	2 (2)	1 (1)	1 (1)	n/a
Dave Coplin	8 (8)	5 (5)	1 (1)	n/a
Eddie Irwin	8 (8)	n/a	n/a	n/a
Tim Jones	8 (8)	n/a	n/a	n/a
Josh Levy	8 (8)	n/a	1 (1)	n/a
Jane Moriarty	8 (8)	5 (5)	1 (1)	n/a
Susan Murray (stepped down from the Board on 25 January 2022)	2 (2)	2 (2)	n/a	n/a
Phil Urban	8 (8)	n/a	n/a	n/a

The numbers in brackets in the table above confirm how many meetings each Director was eligible to attend during the year.

Directors

The following were Directors of the Company during the year ended 24 September 2022:

Directors who served during the year		Date appointed	Date of change of role
Bob Ivell	Independent Non-Executive Director ^a	09/05/11	14/07/11
	Interim Chairman ^a	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne ^b	Non-Executive Director	22/09/16	–
Amanda Brown	Independent Non-Executive Director	04/07/22	–
Dave Coplin	Independent Non-Executive Director	29/02/16	–
Eddie Irwin ^b	Non-Executive Director	21/03/12	–
Tim Jones	Chief Financial Officer	18/10/10	–
Josh Levy ^c	Non-Executive Director	13/11/15	–
Jane Moriarty	Independent Non-Executive Director	27/02/19	25/01/22
	Senior Independent Director	25/01/22	–
Susan Murray	Independent Non-Executive Director and Senior Independent Director	08/03/19	25/01/22
Phil Urban	Chief Executive	27/09/15	–

a. Independent while in the role specified.

b. Nominated shareholder representative of Elpida Group Limited.

c. Nominated shareholder representative of Piedmont Inc.

At the start of the year, the Board was made up of seven male and two female Directors. Susan Murray stepped down from the Board on 25 January 2022 and Amanda Brown was appointed to the Board on 4 July 2022. At the year end, the Board consisted of seven male and two female Directors.

The Executive Directors have service contracts. The Chairman and each of the Non-Executive Directors have letters of appointment. Copies of the respective service contracts or letters of appointment of all the members of the Board are available on the Company's website. In addition, they are available for inspection at the registered office of the Company during normal business hours and at the place of the Annual General Meeting from at least 15 minutes before, and until the end, of the meeting.

At the Company's forthcoming Annual General Meeting in 2023, Amanda Brown, who joined the Board during FY 2022, will be standing for election for the first time, and all other Directors will be required to stand for annual re-election, in accordance with the Company's Articles of Association. Their biographical details as at 6 December 2022 are set out on pages 62 and 63, including their main commitments outside the Company. In addition, Provision 18 of the 2018 Code requires that the papers accompanying the resolutions to elect or re-elect directors, set out the specific reasons why the individual director's contribution is, and continues to be, important to the Company's long-term sustainable success and this information is included in the Notice of Meeting.

Provision 15 of the 2018 Code states that full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointments. The Mitchells & Butlers policy is that Executive Directors may be permitted to accept one external Non-Executive Director appointment with the Board's prior approval and as long as this is not likely to lead to conflicts of interest. During FY 2022, neither of the Executive Directors held any such external directorship, nor did they hold any other significant appointments, as a director or otherwise, and that remains the case as at the date of this Annual Report.

Division of responsibilities between Chairman and Chief Executive

In accordance with Provision 9 of the 2018 Code, the roles of Chairman and Chief Executive should not be exercised by the same individual.

The division of responsibilities between the Chairman and the Chief Executive is clearly established as required by Principle G of the 2018 Code and these are set out in writing and have been agreed by the Board. In particular, it has been agreed in writing that the Chairman shall be responsible for running the Board and shall provide advice and assistance to the Chief Executive. He also chairs the Nomination Committee, is a member of the Remuneration Committee and attends, by invitation, meetings of the Audit Committee. He also chairs the Market Disclosure Committee, Corporate Responsibility Committee, the Property Committee and the Pensions Committee.

It is also agreed in writing that the Chief Executive has responsibility for all aspects of the Group's overall commercial, operational and strategic development. He chairs the Executive Committee (details of which appear on page 81) and attends the Nomination, Remuneration and Audit Committees by invitation, not necessarily for the entirety of such meetings depending upon the subject matter. He is also a member of the Market Disclosure Committee, the Property Committee and the Pensions Committee.

The segregation of responsibilities between the Chairman and the Chief Executive is set out in the Company's Corporate Governance Compliance Statement, which is available on our website, www.mbplc.com.

All other Executive Directors (currently just the Chief Financial Officer) and all other members of the Executive Committee report to the Chief Executive.

Chairman

Provision 9 of the 2018 Code provides that the Chairman should, on appointment, meet the independence criteria set out in Provision 10 of the 2018 Code. Bob Ivell met these independence criteria on appointment.

Bob Ivell was appointed to the role of Executive Chairman on 26 October 2011 on the departure of the then Chief Executive and reverted to the role of Non-Executive Chairman on 12 November 2012.

The Chairman ensures that appropriate communication is maintained with shareholders. He ensures that all Directors are fully informed of matters relevant to their roles. An explanation of the Board's view on the Chairman's tenure is set out at page 76.

With effect from 1 January 2023, the Chairman's fee will increase by 4% to £296,000 per annum.

Chief Executive

Phil Urban was appointed Chief Executive on 27 September 2015. He has responsibility for implementing the strategy agreed by the Board and for the executive management of the Group.

Senior Independent Director

Susan Murray stepped down from the Board at the end of the 2022 AGM on 25 January 2022, and Jane Moriarty was appointed Senior Independent Director on the same date.

The Senior Independent Director supports the Chairman in the delivery of the Board's objectives and ensures that the views of all major shareholders and stakeholders are conveyed to the Board. Jane Moriarty is available to all shareholders should they have any concerns if the normal channels of Chairman, Chief Executive or Chief Financial Officer have failed to resolve them, or for which such contact is inappropriate.

Ordinarily, the Senior Independent Director also meets with Non-Executive Directors, without the Chairman present, at least annually, and conducts the annual appraisal of the Chairman's performance and provides feedback to the Chairman on the outputs of that appraisal. In FY 2022, the annual appraisal of the Chairman's performance was conducted by the Senior Independent Director, Jane Moriarty, and the conclusions fed back to the Chairman. Annual reviews of the Chairman's performance will continue to be conducted as required by the 2018 Code. All Directors have the ability to raise any relevant views which they have with the Senior Independent Director if they feel this is needed.

Non-Executive Directors

The Company has experienced Non-Executive Directors on its Board.

Josh Levy was appointed to the Board as a representative of one of the Company's largest shareholders, Piedmont Inc., a member of the Odyzean Group, and was therefore not regarded as independent in accordance with the 2018 Code.

Eddie Irwin and Keith Browne were appointed to the Board as representatives of another of the Company's largest shareholders, Elpida Group Limited, which is also a member of the Odyzean Group, and were therefore not regarded as independent in accordance with the 2018 Code.

There are currently three independent Non-Executive Directors on the Board: Dave Coplin, Jane Moriarty and Amanda Brown.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 99, the Non-Executive Directors received no remuneration from the Company during the year.

With effect from 1 January 2023, the base fee for Non-Executive Directors will increase by 4% to £55,000 per annum, the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will increase to £13,500 per annum, and the fee paid to Dave Coplin for his role as the Board representative for 'employee voice' will increase to £13,500 per annum.

When Non-Executive Directors are considered for appointment, the Board takes into account their other responsibilities in assessing whether they can commit sufficient time to their prospective directorship. On average, the Non-Executive Directors spend two to three days per month on Company business, but this may be more depending on the circumstances from time to time.

Board information and training

All Directors are briefed by the use of comprehensive papers circulated in advance of Board meetings and by presentations at those meetings, in addition to receiving minutes of previous meetings. Their understanding of the Group's business is enhanced by business specific presentations and operational visits to the Group's businesses. Separate strategy meetings and meetings with senior executives and representatives of specific functions, brands or business units are also held throughout the year.

The training needs of Directors are formally considered on an annual basis and are also monitored throughout the year with appropriate training being provided as required, including corporate social responsibility and corporate governance as well as the environmental impacts of the Company's activities.

Independent advice

Members of the Board may take independent professional advice in the furtherance of their duties and the Board has agreed a formal process for such advice to be made available.

Members of the Board also have access to the advice and services of the Group General Counsel and Company Secretary, the Company's legal and other professional advisers and its external auditor.

The terms of engagement of the Company's external advisers and its external auditor are regularly reviewed by the Group General Counsel and Company Secretary.

Committees

The Audit, Remuneration, Nomination and Corporate Responsibility Committees have written terms of reference approved by the Board, which are available on the Company's website www.mbplc.com. Those terms of reference are each reviewed annually by the relevant Committee to ensure they remain appropriate.

Audit Committee

Details of the Audit Committee and its activities during the year are included in the Audit Committee report on pages 85 to 88 which is incorporated by reference into this statement.

Remuneration Committee

Details of the Remuneration Committee and its activities during the year are included in the Report on Directors' remuneration on pages 89 to 106. Amanda Brown was appointed Chair of the Remuneration Committee on her appointment to the Board on 4 July 2022.

Nomination Committee

The Nomination Committee is responsible for nominating, for the approval of the Board, candidates for appointment to the Board. It is also responsible for succession planning for the Board and the Executive Committee and reviewing the output of the Board effectiveness review. In compliance with the disclosure requirements of Provision 23 of the 2018 Code, there is an ongoing process of review of the make-up of the Board and for Board succession, which is carried out by the Nomination Committee and led by the Chairman. The Nomination Committee engages external search agencies when required and ensures that all candidates are identified and assessed against pre-determined criteria. Gender balance is dealt with by the Nomination Committee on a regular basis and includes assessment of gender balance at senior management level.

The following were members of the Nomination Committee during the year:

	Appointment date	Member at 24/09/22
Bob Ivell (Chair)	11/07/13	Yes
Amanda Brown (appointed 4 July 2022)	04/07/22	Yes
Dave Coplin	29/02/16	Yes
Eddie Irwin	11/07/13	Yes
Jane Moriarty	27/02/19	Yes
Susan Murray (resigned 25 January 2022)	08/03/19	No

In accordance with the disclosure requirement in Provision 23 of the 2018 Code, as at the date of this report, the gender balance for those in the senior management team and their direct reports was split as to 45% female and 55% male. For this purpose, the senior management team comprises the Executive Committee.

The gender balance of the Executive Committee (which includes two Board members) is 70% male and 30% female. Further information on the Executive Committee is given on page 81.

The Nomination Committee agrees the importance of having diversity on the Board, including female representation and individuals with different experiences, skill sets and expertise, so as to maintain an appropriate balance within the Company and on the Board. Whilst there were no formal meetings of the Nomination Committee in FY 2022, its members were consulted about and supported the appointment of Amanda Brown and were briefed on, and supported, the approach to diversity across the Board.

Diversity and Inclusion Steering Group and Board Diversity Policy

The Company has a Diversity and Inclusion Steering Group which examines the implementation of diversity within the Group. As referred to on page 76, Dave Coplin has been identified by the Board as the Director with responsibility for oversight of the Company's Diversity and Inclusion arrangements.

The Board has approved a Board Diversity Policy, which was reviewed and approved in October 2022. The key statement and objectives of that policy are as follows:

Statement:

The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board. Notwithstanding the foregoing, all Board appointments will always be made on merit.

Objectives:

- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship. All Board appointments will be made on merit while taking into account individual competence, skills and expertise measured against identified objective criteria (including consideration of diversity).
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent of character and judgement.
- The Nomination Committee will continue to review what steps and recruitment processes are appropriate for achieving diversity on the Board with due regard being given to the recommendations set out in the Davies Report, the Hampton-Alexander Review and the 2018 Code. These will be reviewed on an annual basis.

Progress against the policy:

The Board continues to monitor progress against this policy. In terms of Board diversity, at the start of FY 2022 there were nine Board directors, of which two were female (22%). The Board reduced to eight members on 25 January 2022, following the departure of Susan Murray, reducing the percentage of women on the Board to 12.5%. The percentage of women on the Board increased to 22% again, following the appointment of Amanda Brown on 4 July 2022, and remained at 22% at the FY 2022 year end. Any future appointments will always be made on merit and will continue to take into account diversity, not only in terms of gender, but also in terms of the appropriate mix of skills and experience. The assessment of the composition of the Board and its Committees and the Chairman's tenure should be considered in the context of the explanation already set out under the heading of 'Board composition and diversity' on page 75.

Details of the Mitchells & Butlers Diversity Policy, which applies to diversity in relation to employees of the Mitchells & Butlers Group, can be found in the Value Creation story on page 38.

A detailed description of the duties of the Nomination Committee is set out within its terms of reference which can be viewed at www.mbplc.com/investors/business-conduct/board-committees/

Market Disclosure Committee

The EU Market Abuse Regulation ('MAR') which took effect in July 2016, brought about substantial changes relating to announcements of material information about the Company and its affairs, and relating to dealings in shares or other securities by Directors and other senior managers, including tighter controls on permitted 'dealings' during closed periods and the handling of information relating to the Company. MAR requires companies to keep a list of people affected and the previous compliance regime and timeframe were enhanced.

As a result, a formal standing Committee of the Board was established, the Market Disclosure Committee, which comprises the Chairman, the Chief Executive, the Chief Financial Officer and an independent Non-Executive Director.

Corporate Responsibility Committee

A Corporate Responsibility Committee was established in June 2019 and its purpose is to allow more executive, leadership and functional management involvement in matters of corporate responsibility and sustainability. Its Terms of Reference are on the Company's website www.mbplc.com.

The Corporate Responsibility Committee comprises Bob Ivell (Chair), Eddie Irwin, Jane Moriarty, Dave Coplin and Amanda Brown. The Chief Executive, Phil Urban, is invited to attend regularly.

A multi-disciplinary operational and functional steering committee has been identified and tasked with carrying out first level oversight of the work plan and roadmap approved by the Committee in FY 2021, with regular reports to the Corporate Responsibility Committee. More details of the activities involved in this programme during the financial year are set out on page 40.

Property Committee

The Property Committee reviews property transactions which have been reviewed and recommended by the Portfolio Development Committee, without the need for submission of transactions to the full Board. The Property Committee agrees to the overall strategic direction for the management of the Group's property portfolio on a regular basis and may decide that a particular transaction should be referred to the Board for consideration or approval. The Property Committee comprises Bob Ivell (Committee Chair), Phil Urban, Tim Jones, Josh Levy, Keith Browne, Jane Moriarty, Amanda Brown and Gary John.

Pensions Committee

The Board has established a Pensions Committee to supervise and manage the Company's relationship with its various pension schemes and their trustees.

The Pensions Committee members are Bob Ivell (Committee Chair), Tim Jones, Phil Urban, Keith Browne and Josh Levy.

Throughout FY 2022 the work of the Pensions Committee focused primarily on the monitoring of the performance of the Group's pensions arrangements including the Mitchells & Butlers Executive Pension Plan moving to a buy-in transaction in December 2021 and both that scheme and the Mitchells & Butlers Pension Plan putting in place arrangements for implementing equalisation of guaranteed minimum pensions.

Executive Committee

The Executive Committee, which is chaired by the Chief Executive, consists of the Executive Directors and certain other senior executives, namely Gary John (Group Property Director), Susan Martindale (Group HR Director), Andrew Freeman (Group General Counsel and Company Secretary), Chris Hopkins (Commercial and Marketing Director) and Susan Chappell, David Gallacher, Dennis Deare and Anna-Marie Mason (the Divisional Directors).

The Executive Committee ordinarily meets at least every four weeks and has day-to-day responsibility for the running of the Group's business.

It develops the Group's strategy and annual revenue and capital budgets for Board approval. It reviews and recommends to the Board any significant investment proposals. This Committee monitors the financial and operational performance of the Group and allocates resources within the budgets agreed by the Board. It considers employment issues, ensures the Group has an appropriate pool of talent and develops senior management workforce planning and succession plans.

A note of the actions agreed by, and the principal decisions of, the Executive Committee, is supplied to the Board for information in order that Board members can keep abreast of operational developments.

General Purposes Committee

The General Purposes Committee comprises any two Executive Directors or any one Executive Director together with a senior officer from an agreed and restricted list of senior executives. It is always chaired by an Executive Director. It attends to business of a routine nature and to administrative matters, the principles of which have been agreed previously by the Board or an appropriate Committee.

Portfolio Development Committee

The executive review of property transactions and capital allocation to significant property matters such as site remodel and conversion plans and the Company's real estate strategy is carried out by the Portfolio Development Committee. This is not a formal Board Committee but comprises the Chief Executive, the Chief Financial Officer, the Group Property Director, and the Group General Counsel and Company Secretary. It has delegated authority to approve certain transactions up to agreed financial limits and, above those authority levels, it makes recommendations to the Board or the Property Committee.

Treasury Committee

The treasury operations of the Mitchells & Butlers Group are operated on a centralised basis under the control of the Group Treasury department. Although not a formal Board Committee, the Treasury Committee, which reports to the Chief Financial Officer but is subject to oversight from the Audit Committee and, ultimately, the Board, has day-to-day responsibility for:

- liquidity management;
- investment of surplus cash;
- funding, cash and banking arrangements;
- interest rate and currency risk management;
- guarantees, bonds, indemnities and any financial encumbrances including charges on assets; and
- relationships with banks and other market counterparties such as credit rating agencies.

The Treasury Committee also works closely with the Finance Department to review the impact of changes in relevant accounting practices and to ensure that treasury activities are disclosed appropriately in the Company's accounts.

The Board delegates the monitoring of treasury activity and compliance to the Treasury Committee. It is responsible for monitoring the effectiveness of treasury policies and making proposals for any changes to policies or in respect of the utilisation of new instruments. The approval of the Board, or a designated committee thereof, is required for any such proposals.

Code of ethics

The Company has implemented business conduct guidelines describing the standards of behaviour expected from those working for the Company in the form of a code of ethics (the 'Ethics Code'). The Ethics Code was re-communicated to all employees in FY 2022 to ensure it was kept clearly in focus. Its aim is to promote honest and ethical conduct throughout our business. The Ethics Code requires:

- compliance with all applicable rules and regulations that apply to the Company and its officers including compliance with the requirements of the Bribery Act 2010;
- the ethical handling of actual or apparent conflicts of interest between internal and external, personal and professional relationships; and
- that any hospitality from suppliers must be approved in advance by appropriate senior management, with a presumption against its acceptance.

The Company takes a zero tolerance approach to bribery and has developed an extensive Bribery Policy which is included in the Ethics Code. The Ethics Code requires employees to comply with the Bribery Policy.

The Company also offers an independently-administered, confidential whistleblowing hotline for any employee wishing to report any concern that they feel would be inappropriate to raise with their line manager. All whistleblowing allegations are reported to, and considered by, the Executive Committee and a summary report (with details of any major concerns) is supplied to, and considered by, the Audit Committee at each of its meetings.

Principle E and Provision 6 of the 2018 Code require the Board to be clear how its approach to whistleblowing has changed from an Audit Committee-led approach to a Board-led approach. Although the Audit Committee continues to receive regular reports on whistleblowing activity, each set of full Board papers also includes, as part of the report from the Group Risk Director, the number and assessment of any whistleblowing reports received and, where relevant, the actions taken in respect of reports which are, on investigation, found to be credible.

The Board takes regular account of social, environmental and ethical matters concerning the Company through regular reports to the Board and presentations to the Board at its strategy meetings.

Directors' training includes environmental, social and governance ('ESG') matters and the Company Secretary is responsible for ensuring that Directors are made aware of and receive regular training in respect of these important areas. The Chief Executive, Phil Urban, is ultimately responsible for ESG matters, which includes Climate Change reporting, which is dealt with in the next section.

Climate change reporting

I. Reporting

Reporting prior to 2021

For periods beginning on or after 1 April 2019, The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 required new or enhanced directors' report disclosures on greenhouse gas emissions and energy consumption. Quantitative and narrative disclosures on energy consumption and energy efficiency measures were added to the pre-existing greenhouse gas emissions disclosures. Additionally, the regulations brought in a new requirement to report on the principal measures taken to increase energy efficiency if any such action has been taken in the organisation's financial year.

The FY 2020 Strategic Report set out these principal measures but for FY 2021 it was expanded to set out not only the principal measures and their progress since then, but also our future aims in this area. Progress made in FY 2022 is set out in the Strategic Report on pages 10 to 58.

New mandatory reporting and disclosure requirements

The Task Force on Climate-related Financial Disclosures ('TCFD') was established by the Financial Stability Board in 2015 and published its final report in June 2017. The report set out eleven recommended disclosures under four pillars to promote better disclosure and these are set out below:

TCFD: four recommendations and eleven recommended disclosures

Recommendations			
Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organisation's governance around climate-related risks and opportunities ('CRO').	Disclose the actual and potential impacts of CRO on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant CRO where such information is material.
Recommended Disclosures			
(a) Describe the Board's oversight of CRO.	(a) Describe the CRO the organisation has identified over the short, medium and long term.	(a) Describe the organisation's processes for identifying and assessing climate-related risks.	(a) Disclose the metrics used by the organisation to assess CRO in line with its strategy and risk management process.
(b) Describe management's role in assessing and managing CRO.	(b) Describe the impact of CRO on the organisation's businesses, strategy and financial planning.	(b) Describe the organisation's processes for managing climate-related risks.	(b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas ('GHG') emissions and the related risks.
	(c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	(c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	(c) Describe the targets used by the organisation to manage CRO and performance against targets.

For FY 2022, the Company has undertaken a comprehensive review of its risks in relation to, and oversight of, TCFD and the results of this are set out on pages 28 to 31 of the Strategic Report.

The new Listing Rule

The new climate-related disclosure Listing Rule 9.8.6R(8) is a continuing obligation for premium listed companies in annual reports for periods commencing on or after 1 January 2021 and thereafter, so this FY 2022 is the first Annual Report where reporting for the Company will be mandatory. The rule requires companies to disclose:

- whether they have made disclosures consistent with the four recommendations and eleven recommended disclosures set out in section C of the TCFD Final Report in their annual financial report;
- where these disclosures can be found in the annual report; and
- a 'comply or explain' obligation to explain;
- if they have not included disclosures consistent with all of the TCFD's recommendations and/or recommended disclosures, which disclosures they have not included and the reasons for not including them; and/or
- why they have included some or all of the disclosures in a document other than their annual report.

Where not all required TCFD disclosures have been provided, in addition to explaining why, the annual report now also needs to explain:

- the timeframe for compliance; and
- the steps the company is taking or plans to take to achieve compliance.

Institutional Investor requirements

Institutional Investors will expect all listed companies to be reporting against all four TCFD pillars and want those disclosures to be more meaningful and will be instructing their clients accordingly in relation to voting. They will also expect companies to include a statement in their annual report that the directors have considered material climate-related matters when preparing and signing-off the company's accounts.

2. Actions being taken by the Company

Executive ownership

The Board tasked Phil Urban with spearheading the Company's approach to tackling climate change reporting across the organisation since he also chairs the Executive Committee so can ensure focus at Executive Committee level.

Strategy

The Board is mindful of the business impacts relevant to the sector, and due consideration of such is included when considering changes made across the business in relation to climate change obligations. Going forward, this important issue will continue to form part of the considerations taken into account by the Board when it is evaluating strategic decision and investment priorities. Capital expenditure proposals submitted to the Board include appropriate details on such aspects.

Governance

Climate change issues are discussed at Board level and the Board has specifically requested the Corporate Responsibility Committee to focus on ESG/sustainability matters. The Company's required climate response/transformation is a feature of agendas, with priority being given to ensuring enough time is dedicated to the discussion. The Corporate Responsibility Committee approved, and recommended to the Board, the Group's sustainability roadmap through which it identified and agreed how to manage climate-related issues. These initiatives were addressed in FY 2022 when TCFD compliance became compulsory for the Company.

Risk and Scenario analysis

During FY 2022, the Company developed a rigorous climate change scenario impact analysis. The Audit Committee is tasked with ensuring it is satisfied that the scenarios are sufficiently challenging, diverse and relevant, and also ensuring through this process and the Risk Committee that its risk monitoring activity appropriately addresses climate change risks for the Company. Further details are set out on pages 28 to 31 of the Strategic Report.

Information, reporting and assurance

In the 2021 Annual Report, the Company undertook to address the following aspects of its readiness for TCFD reporting during FY 2022:

- whether climate-related management information was robust and fit for purpose. See pages 28 to 31 of the Strategic Report for further discussion on this;
- the extent to which any external data, or external expertise that the Company relied upon is reliable and credible;
- whether the finance function has taken ownership of information and accounting around climate change and, if not, whether there are sufficient checks and balances to give confidence in the information;
- consideration of the findings of reporting reviews such as the FRC's climate change thematic review. Changes to annual report processes and reporting have been examined and implemented as necessary; and
- the level of internal or external oversight or assurance to which the Company's metrics will be subjected.

The Board is responsible for the Company's internal risk management system, in respect of which more details can be found in the 'Risks and uncertainties' section of this report, and in the following section of this statement.

Internal control and risk management

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the 2018 Code for the period under review and to the date of approval of the Annual Report. Such procedures are in line with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' and are regularly reviewed by the Audit Committee.

The key features of the Group's internal control and risk management systems include:

- Processes, including monitoring by the Board, in respect of:
 - i. financial performance within a comprehensive financial planning, accounting and reporting framework;
 - ii. strategic plan achievement;
 - iii. capital investment and asset management performance, with detailed appraisal, authorisation and post-investment reviews; and
 - iv. consumer insight data and actions to assess the evolution of brands and formats to ensure that they continue to be appealing and relevant to the Group's guests.
- An overall governance framework including:
 - i. clearly defined delegations of authority and reporting lines;
 - ii. a comprehensive set of policies and procedures that employees are required to follow; and
 - iii. the Group's Ethics Code, in respect of which an annual confirmation of compliance is sought from all corporate employees.
- The Risk Committee, a sub-committee of the Executive Committee, which assists the Board, the Audit Committee and the Executive Committee in managing the processes for identifying, evaluating, monitoring and mitigating risks. The Risk Committee, which continues to meet regularly, is chaired by the Group General Counsel and Company Secretary and comprises Executive Committee members and other members of senior management from a cross-section of functions.

The primary responsibilities of the Risk Committee are to:

- i. advise the Executive Committee on the Company's overall risk appetite and risk strategy, taking account of the current and prospective operating, legal, macroeconomic and financial environments;
- ii. advise the Executive Committee on the current and emerging risk exposures of the Company in the context of the Board's overall risk appetite and risk strategy;
- iii. promote the management of risk throughout the organisation;
- iv. review and monitor the Company's capability and processes to identify and manage risks;
- v. consider the identified key risks faced by the Company and new and emerging risks and consider the adequacy of mitigation plans in respect of such risks; and
- vi. where mitigation plans are regarded to be inadequate, recommend improvement actions.

The Group's risks identified by the processes that are managed by the Risk Committee, are described in the 'Risks and uncertainties' section on pages 44 to 51.

More details of the work of the Risk Committee are included in the Audit Committee report on pages 85 to 88.

- Examination of business processes on a risk basis including reports from the internal audit function, known as Group Assurance, which reports directly to the Audit Committee.

The Group also has in place systems, including policies and procedures, for exercising control and managing risk in respect of financial reporting and the preparation of consolidated accounts. These systems, policies and procedures:

- i. govern the maintenance of accounting records that, in reasonable detail, accurately and fairly reflect transactions;
- ii. require reported information to be reviewed and reconciled, with monitoring by the Audit Committee and the Board; and
- iii. provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ('IFRS') or UK Generally Accepted Accounting Practice, as appropriate. Please also refer to the Statement of Directors' responsibilities in respect of the Annual Report and Accounts, on page 72.

In accordance with the 2018 Code, during the year the Audit Committee completed (and reported to the Board its conclusions in respect of) its annual review of the effectiveness of the Group's risk management and internal control systems, including financial, operational and compliance controls.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, it can only provide reasonable and not absolute assurance against material misstatement or loss. In that context, in the opinion of the Audit Committee, the review did not indicate that the system was ineffective or unsatisfactory. To the extent that weaknesses in internal controls were identified, the Audit Committee reviewed the audit findings, together with the remedial action plans that were put in place, and sought confirmation that all actions were closed out in a timely manner. Through this process, material audit findings were presented to the Audit Committee, the necessary follow-up reviews were completed and the results were reported to the Audit Committee, to ensure appropriate mitigation plans had been actioned. Please refer to the Audit Committee report, on pages 85 to 88.

The Audit Committee is not aware of any change to this status up to the date of approval of this Annual Report.

With regard to insurance against risk, it is not practicable to insure against every risk to the fullest extent. The Group regularly reviews both the type and amount of external insurance that it buys with guidance from an external independent broker, bearing in mind the availability of such cover, its cost and the likelihood and magnitude of the risks involved and the mitigation which insurance might provide.



Audit Committee report

“On behalf of the Board, I present the report of the Audit Committee for the financial year ended 24 September 2022.”

*Jane Moriarty
Chair of the Audit Committee*

Introduction

During recent years, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee has ensured it has maintained an appropriate level of engagement with the Chief Financial Officer and the Group Risk Director, other key individuals and their teams who collectively provide an appreciation and rigorous insight into how the Group functions and reports. The Committee is very grateful for the insight these interactions provide and this, in turn, significantly assists the Committee in executing its oversight role and ensuring confidence in reporting to the wider Board.

Engagement with external auditors, internal auditors and other third-party advisers

The Committee continued to engage formally, regularly and at an appropriate level of detail with our external auditors, internal auditors (also externally resourced) and other third-party advisers as necessary. This has enabled the Committee to maintain an appropriate understanding of how our auditors and advisers interact and test our comprehensive risk functions. The Committee's engagement during the auditing and advisory process enables it to convey confidence in their collective fieldwork conclusions.

The Committee also ensured that the Group provided adequate resources to ensure that any additional non-audit services required during the year were obtained, where necessary, and the Financial Reporting Council's (FRC) evolving reporting requirements were adhered to. The FRC performed a review of the Group's 2021 annual report, the results of which were communicated in a letter in April 2022. They raised queries and recommendations to enhance future disclosures, which have been considered by the Committee, and which were actioned promptly. This allowed the FRC to close their enquiries in a satisfactory and timely manner. The FRC review provides no assurance that the annual report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements, and the letter was issued by FRC on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on this letter by the company or any third party, including but not limited to investors and shareholders.

Effectiveness of internal controls and Group assurance and risk function

The above efforts provided the Committee with a clear and detailed understanding of the principal financial and operational risks throughout the period (please also refer to the Group's risks and uncertainties, detailed on pages 44 to 51). The Committee continued to focus on challenging the effectiveness of internal controls, the robustness of assurance and risk management processes and in assessing the importance of, and acting as required upon, all reported information received from our external and internal auditors and third-party advisers.

The Committee remains committed to maintaining an open and constructive dialogue on relevant audit matters with all shareholders. Therefore, should you have any comments or questions on any aspects of this report, or indeed the wider financial statements, may I respectfully ask you to please email myself, care of Adrian Brannan, Group Risk Director, at company.secretariat@mbplc.com

Remit and membership of the Audit Committee

The main purpose of the Audit Committee is to review and maintain oversight of the Group's corporate governance, particularly with respect to financial reporting, internal control and risk management. The Audit Committee's responsibilities also include:

- reviewing the processes for detecting fraud, misconduct and internal control weaknesses;
- reviewing the effectiveness of the Group Assurance function; and
- overseeing the relationship with the external and internal auditors and other third-party advisers.

At the date of the 2022 Annual Report, the Audit Committee comprised three independent Non-Executive Directors: Jane Moriarty (Chair), Dave Coplin and Amanda Brown. In accordance with 2018 Code Provision 24 the Board considers that Jane Moriarty has significant, recent and relevant financial experience. Biographies of all of the members of the Audit Committee, including a summary of their respective experience, appear on pages 62 and 63.

The Audit Committee met at least quarterly during FY 2022. In each case, appropriate papers were distributed to the Committee members and other invited attendees, including, where and to the extent appropriate, representatives of the external audit firm, the internal Group Assurance function and other third-party advisers.

When appropriate, the Audit Committee augments the skills and experience of its members with advice from internal and external audit professionals, for example, on matters such as developments in financial reporting. Audit Committee meetings are also attended, by invitation, by other members of the Board including the Chairman, the Chief Executive and the Chief Financial Officer, the Group General Counsel and Company Secretary, the Group Risk Director and representatives of the external auditor, KPMG LLP. The Audit Committee also has the opportunity to meet privately with the external auditor not less than twice a year, without any member of management present, in relation to audit matters.

The remuneration of the members of the Audit Committee is set out in the Report on Directors' remuneration on page 99.

Summary terms of reference

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Group's website: www.mbplc.com/pdf/audit_committee_terms.pdf

The Audit Committee's terms of reference were approved by the Committee and adopted by the Board in 2013. Those terms of reference specifically provide that they will be reviewed annually. They have been reviewed and updated as appropriate each year since and no changes were felt to be needed when they were reviewed in September 2022. Accordingly, in FY 2022 no material changes were made to the terms of reference of the Audit Committee, but the work of the Audit Committee will be kept under review with the expectation that any such matters which come to light are included in the next annual review.

The Audit Committee is authorised by the Board to review any activity within the business. It is authorised to seek any information it requires from, and require the attendance at any of its meetings of, any Director, any member of management and any employees, who are expected to co-operate with any request made by the Audit Committee.

The Audit Committee is authorised by the Board to obtain, at the Group's expense, external legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary.

The Chair of the Audit Committee reports to the Board meeting following each Committee meeting on the Committee's work and the Board receives a copy of the minutes of each meeting.

The role and responsibilities of the Audit Committee are to:

- review the Group's public statements on internal control, risk management and corporate governance compliance;
- review the Group's processes for detecting fraud, misconduct and control weaknesses and to consider the Group's response to any such occurrence;
- review management's evaluation of any change in internal controls over financial reporting;
- review with management, and the external auditor, Group financial statements required under UK legislation before submission to the Board;
- establish, review and maintain the role and effectiveness of the internal audit function, Group Assurance and the risk function, whose objective is to provide independent assurance over the Group's significant processes and controls, including those in respect of the Group's principal risks;
- assume direct responsibility for the appointment, compensation, resignation, dismissal and the overseeing of the external auditor, including review of the external audit, its cost and effectiveness;
- pre-approve non-audit work to be carried out by the external auditor and the fees to be paid for that work together with the monitoring of the external auditor's independence;
- oversee the process for dealing with complaints received by the Group regarding accounting, internal accounting controls or auditing matters and any confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
- adopt and oversee a specific Code of Ethics for all employees which is consistent with the Group's overall statement of business ethics.

Key activities of the Audit Committee

Audit matters are reviewed at quarterly Audit Committee meetings throughout the year at which detailed reports are presented for review. The Audit Committee commissions reports from external advisers, the Group Risk Director or Group management, either after consideration of the Group's key risks or in response to developing issues.

During the year, in order to fulfil the roles and responsibilities of the Audit Committee, the following matters were considered:

- the suitability of the Group's accounting policies and practices;
- half year and full year financial results;
- the scope and cost of the external audit;
- the external auditor's full year report;
- the appointment of the external auditor, KPMG LLP;
- any non-audit work carried out by the auditor and trends in the non-audit fees in accordance with the Committee's policy to ensure the safeguarding of audit independence;
- the co-ordination of the activities and the work programmes of the internal and external audit functions;
- the arrangements in respect of Group Assurance including its resourcing, external support, the scope of the annual internal audit plan for FY 2022, the level of achievement of that plan and the scope of the annual internal audit plan for FY 2023;
- periodic internal control and assurance reports from Group Assurance;
- the Group's risk management framework for the identification and control of key risks, its risk and assurance mitigation plan and the annual assessment of effectiveness of controls;
- review of the going concern and Corporate Viability Disclosures (a summary is reported on pages 58 and 52 respectively);
- compliance with the Group's Code of Ethics;
- corporate governance developments;
- the status of material litigation involving the Group; and
- reports on allegations made via the Group's whistleblowing procedures and the effectiveness of these procedures, including a summary of reports received during FY 2022.

Disclosure of significant and other judgements

The Audit Committee has reviewed the key judgements applied in the preparation of the consolidated financial statements, which are described in the relevant accounting policies and detailed notes to the financial statements on pages 107 to 176.

The Audit Committee's review included consideration of the following areas and key accounting judgements:

- **Going concern** – the headroom on the covenants across both the secured and unsecured estates and Group liquidity, have been reviewed in detail by management and assessed by the Audit Committee (see page 58). The Corporate Viability Disclosure which includes details of further sensitivity is on page 52.
- **Property, plant and equipment valuation** – the assumptions used by management to value the long leasehold and freehold estate including: estimated fair maintainable trading levels; brand multiples and use of spot valuations, to ensure a consistent valuation methodology is in place. The revaluation methodology is determined by using management judgement, with advice taken from third-party valuation experts. Short leasehold buildings, right-of-use assets, unlicensed land and buildings, and tenant's fixtures, fittings and equipment are held at cost less depreciation and impairment. Impairment includes management judgement to determine site level profit and cash forecasts and includes estimations of discount and long-term growth rates.
- **Pension surplus/deficit** – the actuarial pension funding is sensitive to the actuarial assumptions applied in measuring future cash outflows. The use of assumptions such as the discount rate and inflation which have an impact on the valuation of the defined benefit pension scheme has been assessed by the Audit Committee. Management has used judgement to determine the applicable discount and inflation rate to apply to pension increases in calculating the defined benefit obligation. The total pension liability, inclusive of minimum funding, is significantly less sensitive to management assumptions due to the remaining term of the schedule of contributions.
- **Separately disclosed items** – judgement is used to determine those items which should be separately disclosed to allow an understanding of the adjusted trading performance of the Group. Separately disclosed items are explained and analysed in note 2.2 of the financial statements on page 124. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Effectiveness of internal audit

The Audit Committee is responsible for monitoring and reviewing the effectiveness of the Group's internal audit function. The Audit Committee meets regularly with management and with the Group Risk Director and the internal auditor to review the effectiveness of internal controls and risk management and receives reports from the Group Risk Director on a quarterly basis.

During each financial year, the Audit Committee completes its annual review of the effectiveness of the Group's system of internal controls and internal audit function, including financial, operational, compliance and risk management systems.

The annual internal audit plan is approved by the Audit Committee and is kept under review on a monthly basis, by the Group Risk Director, in order to reflect the changing business needs and to ensure new and emerging risks are considered. The Audit Committee is informed of any amendments made to the internal audit plan on a quarterly basis. The FY 2022 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Executive Committee) together with consideration of the Group's key business processes and functions that could be subject to audit.

A similar approach has been employed in relation to the FY 2023 internal audit plan. The principal objectives of the internal audit plan for FY 2022 were, and remain for FY 2023:

- to provide confidence that existing and emerging key risks are being managed effectively;
- to confirm that controls over core business functions and processes are operating as intended; and
- to confirm that major projects and significant business change programmes are being adequately controlled.

Findings from all audit reports issued by the Group Assurance function are reviewed by the Audit Committee. Internal audit recommendations are closely monitored from implementation through to closure via a recommendation tracking system, which efficiently assists the overall monitoring of internal audit recommendations to ensure these are successfully implemented in a timely manner. A summary of the status of the implementation of internal audit recommendations is made monthly to the Executive Committee and quarterly to the Audit Committee.

Risk management framework

As disclosed in the 'Risk and uncertainties' section on pages 44 to 51 the Risk Committee continues to meet on a quarterly basis to review the key risks facing the business. Membership of the Risk Committee, which includes representation from each of the key business functions, is detailed below:

- Group General Counsel and Company Secretary (Chairman)
- Chief Financial Officer
- Commercial and Marketing Director
- Divisional Director (Operations)
- Group HR Director
- Director of Business Change & Technology
- Group Risk Director
- Director of Group Legal & Company Secretariat
- Head of Safety

Key risks identified are reviewed and assessed on a quarterly basis in terms of their likelihood and impact, and are measured on the Group's 'Key Risk Heat Map', in conjunction with associated risk mitigation plans. In addition, the Risk Committee review includes an assessment of the material relevance of emerging risks and the continued relevance of previously identified risks. During FY 2022, Risk Committee meetings continued to include a cross-functional, detailed review of the Group's key risks. This process, which was introduced in FY 2016, continues to prove to be effective and adds value to the continued development and progression of the Group's approach to evaluating new and existing risks, supported by robust mitigation plans.

Actions arising from Risk Committee meetings are followed up by the Group Risk Director. The Audit Committee reviews the Risk Committee minutes in addition to undertaking a quarterly review of the Group's 'Key Risk Heat Map'.

Confidential reporting

The Group's whistleblowing policy enables staff, in confidence, to raise concerns about possible improprieties in financial and other matters and to do so without fear of reprisal. Details of the policy are set out in the Group's Code of Ethics. The Audit Committee receives quarterly reports on whistleblowing incidents and remains satisfied that the procedures in place are satisfactory to enable independent investigation and follow up action of all matters reported. No major issues have been reported in FY 2022 (major issues being defined for this purpose as matters having a financial impact of greater than £100k). The Board also receives a report on whistleblowing in the Group General Counsel and Company Secretary's regular report to Board meetings.

External auditor appointment

Following Shareholder and Board approval, KPMG LLP was appointed as the auditor in 2022, following a formal tender process in 2020 to ensure the continued objectivity, independence and value for money of the statutory audit. KPMG LLP is therefore responsible for undertaking the FY 2022 audit.

The Audit Committee has considered the guidance in relation to rotation including the proposed transition rules which will be considered when recommending the appointment of the auditor in future years. The Group has complied throughout FY 2022 with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

External auditor's independence

The external auditor should not provide non-audit services where it might impair their independence or objectivity to do so. The Audit Committee has established a policy to safeguard the independence and objectivity of the Group's external auditor as set out below. That policy was reviewed in FY 2022 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Group's website.

Pursuant to that policy the following services have been pre-approved by the Audit Committee provided that the fees for such services do not exceed in any year more than 70% of the average audit fee paid to that audit firm over the past three years (unless prior approval has been obtained from the FRC, such as the additional work performed in relation to the Open Offer during FY 2021):

- audit services, including work related to the annual Group financial statements and statutory accounts; and
- working capital review, in respect of the Open Offer in FY 2021, following approval from the FRC.

The Audit Committee remains confident that the objectivity and independence of the external auditor are not in any way impaired by reason of the non-audit services which they provide to the Group.

That policy also includes an extensive list of services which the audit firm may not provide or may only provide in very limited circumstances where the Group and the audit firm agree that there would be no impact on the impartiality of the external audit firm.

Details of the remuneration paid to the external auditor, and the split between audit and non-audit services, are set out at note 2.3 of the financial statements on page 128.

External audit annual assessment

The Audit Committee assesses annually the qualification, expertise, resources and independence of the Group's external auditor and the overall effectiveness of the audit process. The Chief Financial Officer, Group General Counsel and Company Secretary, Audit Committee Chair and Group Risk Director meet with the external auditor to discuss the audit, significant risks and any key issues included on the Audit Committee's agenda during the year.

Fair, balanced and understandable statement

One of the key governance requirements of the Annual Report and Accounts is for the report and accounts, taken as a whole, to be fair, balanced and understandable, and that they provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. Therefore, upon review of the financial statements, the Audit Committee and the Board have confirmed that they are satisfied with the overall fairness, balance and clarity of the Annual Report and Accounts, which is underpinned by the following:

- review of the formal review processes at all levels to ensure the Annual Report and Accounts are factually correct;
- clear guidance being issued to all contributors to ensure a consistent approach; and
- formal minutes of the Year End Working Group comprised of relevant internal functional representatives and appropriate external advisers.

Jane Moriarty

Chair of the Audit Committee
6 December 2022



Report on Directors' remuneration

“Following my appointment as Chair of the Remuneration Committee in July, I am pleased to present the Directors’ Remuneration Report in respect of the financial period which ended on 24 September 2022.”

*Amanda Brown
Chair of the Remuneration Committee*

Background and business context

The UK Hospitality industry has faced another year of considerable challenge and volatility. In early December it became clear that concerns relating to the emergence of the new Omicron variant were having an impact on consumer confidence, with the public encouraged to limit socialising and this having a major detrimental effect on trading at the busiest period of the year. By the half year, it was clear that a number of factors were having a sustained impact on driving up inflationary cost pressures, notably wages, fuel and food costs, not only affecting our own cost base, but crucially threatening to impact consumer confidence as inflation began to rise.

Against this backdrop the business has performed well. By the start of FY 2022 sales had returned to growth, and whilst the impact of the Omicron variant meant that sales over the four-week Christmas period fell on a like-for-like basis by over 10%, performance was strong in the period up to the start of December. Through the remainder of the year like-for-like sales remained in growth although overall profitability continued to be impacted by the external factors set out above. Total sales for FY 2022 fell by 1.3% mainly as a result of temporary closures in the first quarter, however, like-for-like sales^a grew by 1.1% over the full year.

In comparison with FY 2019, cost headwinds totalled £220m with energy costs contributing £70m. If energy costs had remained flat, full year Operating Profit would have been broadly in line with FY 2019 even when taking into account the other cost increases. Given the impact of Omicron in the first quarter, this represents a very strong performance.

The strategic priorities underpinning the performance of the business have remained consistent for a number of years, with our aims being:

- build a balanced business,
- instil a commercial culture and,
- to drive an innovation agenda.

The Ignite programme of work continues to be the engine room that drives progress across these priorities and has enabled the management team to be proactive in managing the impact of the macroeconomic environment on the business. A range of new initiatives is now being introduced alongside existing projects. These newer projects include automated ordering for food and drinks, and, more recently, the roll out commenced of automated scheduling tools. Both of these initiatives improve efficiency and save our managers time, allowing them to focus on our guests.

The ongoing energy cost pressures make it essential that businesses look to innovation as a way to mitigate as far as possible increases that the business faces. These innovations have ranged from the very straightforward, such as appointing in-house energy champions to identify opportunities to improve energy efficiency, to more sophisticated capital driven responses such as the installation of voltage optimisers.

Our capital investment plan is key to us building a balanced business and has continued despite the ongoing uncertainty. Over FY 2022 c. 166 conversions and remodel projects were completed, made possible by the strong underlying financial position of the Group, and these projects continue to deliver good returns.

a. Compared to FY 2019, this being the last full pre-Covid financial year.

Building a sustainable business

Progress against our Environmental, Social and Governance ('ESG') strategy has also continued throughout the last year. This strategy focuses on three areas, respect for the planet, pride in our offers and care for our communities. We have set a very ambitious target to be Net Zero by 2040, to have zero operational landfill by 2030 and to have reduced food waste by 50% by 2030. Work towards these targets is underpinned by a number of workstreams focused on practical ways of achieving these aims, for example by increasing recycling and making operational improvements to reduce our food waste through partnerships such as Too Good to Go. We are also founding members of the Zero Carbon Forum. Our strategy also encompasses our people and our communities with a focus on employee wellbeing and working with partners such as Shelter, Only a Pavement Away and Social Bite to tackle homelessness and provide job opportunities. More information on our broader sustainability strategy can be found on pages 32 and 33.

It is well documented that the hospitality sector has been impacted by employee shortages since the pandemic began and whilst there are some areas of the country where recruitment and retention remain challenging, particularly for kitchen teams, employee numbers in Mitchells & Butlers have recovered almost to pre-pandemic levels.

The challenging recruitment market is unlikely to change in the short to medium term, and as a result it is important that our overall employee offer adapts to meet the demands of current and prospective employees. To do this, work is underway to enable employees to work more flexibly and to consider how best to address long working hours which have been a characteristic of the hospitality industry for many years.

The business is also very aware of the role it can play in supporting our employees with the impact of inflation and the cost of living, and an element of this is ensuring that pay and benefits remain competitive. All employees have access to a platform that provides discounts across a range of retailers, including supermarkets and we have recently extended our employee discount scheme to enable friends and family to access the scheme. In addition, employees are able to access support across a range of mechanisms including our employee assistance programme which is operated in conjunction with the Licensed Trade Charity.

Outcome of the 2022 AGM vote on the Annual Report on Directors' remuneration

At the 2022 AGM the Annual Report on Directors' remuneration received the support of 78.5% of shareholders. It is clear to me that some shareholders had concerns about the RSP award level for the Chief Financial Officer ('CFO') which I will address later in this report. The current remuneration policy was approved at the 2021 AGM with 82.5% of shareholders voting in favour of the policy.

Remuneration in FY 2022

From the start of FY 2022 to my appointment as Remuneration Committee Chair in July 2022, remuneration matters were considered by the Board. As such, where references are made to the Board in the remainder of this statement this indicates that the matter was dealt with by the Board and where the Remuneration Committee ('the Committee') is referenced it was a matter considered by the Committee.

Annual Bonus

For FY 2022 the annual bonus scheme reverted to the structure in place prior to the Covid-19 pandemic, with four elements: Adjusted Operating Profit^a (hereafter known as Operating Profit), Guest Health, Employee Engagement and Food Safety. These plan measures reflect the overall business scorecard aligning all employees from the Executive Committee through to the management teams in each business.

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.

Financial measures – Operating Profit (outcome 14.6% out of 43%)

In the hope of a more stable FY 2022, the Board set Operating Profit targets at the start of the financial year for the Company incentive schemes. By the end of the first quarter, a number of things had changed. The emergence of the Omicron variant had a significant impact on Christmas trading, the cost headwinds the business was facing were far in excess of those anticipated at the start of the financial year and it was also clear that consumer confidence would be weakened as a result of much higher inflation and, in particular, increases in household energy costs.

At the beginning of the second quarter, the Board reviewed performance and, taking into account the significant shift in the financial outlook, concluded that the targets set were no longer appropriate for the c. 6,000 employees across the Group that we were trying to incentivise, at the same time highlighting a significant retention and motivation risk. The Board therefore determined it would be appropriate to set a target for the final eight periods of the year (April to end September) but with a corresponding reduction in bonus opportunity. This approach applied to all those employees eligible to participate in an incentive plan and included c. 5,000 critical frontline managers as well as the Executive Team and Executive Directors.

For the Executive Directors, this meant that the financial performance in the first five periods of the financial year was measured against the original targets set in respect of this period. As these targets were not achieved, no bonus will be awarded in respect of this period.

The Operating Profit target for the remainder of the financial year was set following a reforecast of the business in the light of the escalating cost pressures, notably in wages, food and energy costs. This resulted in an Operating Profit target of £167.7m in respect of this period. The Board determined that this pro-rata target was at least as challenging as the full year target and provided a fair and proportionate level of incentive for Executives in what would be a very challenging year.

As this target now covered a part year, the overall earnings opportunity for this element was reduced accordingly on a pro-rata basis from 70% to 43% of base pay.

The same performance range applied to the revised target with earnings beginning to accrue at 95% of the target and maximum at 103% of target.

This approach to annual incentives was applied to all support centre colleagues. For frontline management employees a pro-rata approach was put in place based on the same principles. In addition, where any bonus was earned by employees in this group against the earlier period's targets, this was also paid.

The overall Operating Profit outcome over the financial year was £240m, and £165m for the period between April and the end of September equivalent to 98.4% of the eight period target, resulting in a bonus payment equivalent to 14.6% of salary for Executive Directors.

Non-financial measures – (outcome 18.75% out of 30%)

The non-financial measures encompass Guest Health, Employee Engagement and Food Safety, and form an important part of the annual incentive plan. Clear correlations have been established over a number of years between strong employee engagement, high levels of guest satisfaction and sales performance. Food safety is always a priority for the business.

Bonus can only be earned under these non-profit elements if 97.5% of the Operating Profit target is met. The non-profit targets for FY 2022 were measured over a full year and the Operating Profit underpin assessed against the financial target set for the final eight periods of the year, and therefore the profit underpin condition has been met.

Guest Health performance was at the threshold level for payment, Employee Engagement exceeded the maximum target and the Food Safety element met the target set. As a result, the overall outcome across all three non-profit elements was a payment equivalent to 18.75% of base pay for Executive Directors.

Final Bonus Outcome

In determining the final bonus outcome, the Committee considered the wider performance of the Group across the entire financial year as part of its overall quality of earnings assessment. The Committee felt it was important that this assessment included the financial performance in the first quarter of the year, taking into account trading prior to the emergence of the Omicron variant and the resilience the business has shown subsequently as the cost pressures have further increased significantly in the remainder of the year as a result of Russia's invasion of Ukraine. Overall, given the very challenging circumstances, the Committee felt that the Senior Management team had delivered a strong performance over the year.

In taking all of these factors into account, and specifically the scaling back of the bonus opportunity for the financial element and the very demanding nature of the targets, the Committee was therefore satisfied that the overall outcome was consistent with our performance over the year. An additional important consideration was that other employee groups had been treated consistently with the approach taken for Executive Directors.

Therefore, the total bonus awarded to Executive Directors is 33.4% of salary, resulting in bonus payments of £182,241 and £152,491 to Phil Urban and Tim Jones respectively.

In line with our policy, half of any bonus award will be deferred into shares under the Short Term Deferred Incentive Plan ('STDIP'), which will be released in two equal amounts after 12 and 24 months. These shares will be retained until the shareholding requirement is met and are subject to a post-cessation holding period.

FY 2019 PRSP vesting and underpin

Last year's report explained that the FY 2019 PRSP has vested but that these vested shares, equivalent to 21.5% of the maximum outcome, were subject to a share price underpin. This underpin meant that shares could not be exercised unless the share price equalled or exceeded 272p on any one day from 25 November 2021 up to and including 25 May 2022. During the period up to 25 May 2022 the share price came very close to meeting this underpin, reaching 268p in February. The share price had been consistently above this underpin in the period just prior to vesting and over the last three months of FY 2021 the average share price was 277p.

The Board considered this matter in April when it became clear that the underpin condition would not be met and concluded that it was very likely that the condition would have been met, had it not been for the wider macro factors affecting share prices across many sectors of the economy. For example these factors, namely the impact of Omicron and Russia's invasion of Ukraine, saw share prices fall across the FTSE All Share Travel and Leisure group (which Mitchells & Butlers is a part) by around 3.7% in the period between the shares vesting in November 2021 and the end of the underpin period in May 2022. Over the period from the date of grant to the end of the original underpin period, Mitchells & Butlers outperformed the median share price of the FTSE All Share Travel and Leisure group.

Equally, the Board did not feel that it would be appropriate to simply override the condition and allow awards to be exercised at a time when the share price was depressed. It was also noted that this type of underpin is unusual in long-term incentive plans and means that there is a further performance hurdle to be met in order for vested shares to be released.

The Board therefore determined that it would be appropriate to extend the time period under which the underpin would need to be satisfied to two years post the vesting date (to November 2023), this being the period by which vested awards must be exercised under the plan rules. If the underpin is met during the extended period, the Committee is committed to reviewing the wider circumstances at the time, including the Company's broader performance, to determine whether it is appropriate for the vested shares to be exercised. As such, the underpin being met during the extended period will not automatically result in the vested shares becoming exercisable.

In accordance with our remuneration policy, a letter explaining the decisions to amend the underpin was sent to major shareholders and investor groups during the year, and there were no concerns raised as a result.

FY 2020 PRSP (Nil Vesting)

During FY 2020 share awards were made to Phil Urban and Tim Jones under the terms of the PRSP to the value of 200% and 140% of their respective salaries.

The 2020/22 PRSP performance condition had two independent elements, Operating Cash Flow before separately disclosed items (75% weighting and hereafter referred to as Operating Cash Flow) and relative TSR performance against a group of sector peers (25% weighting).

As has been well documented, the Covid-19 pandemic has severely impacted on financial performance with Operating Cash Flow of £835m being below the level required for threshold vesting (£1,509m). As a result, this element of the plan lapsed. TSR performance was -41.3% and below the median of the group (-36.5%) and therefore this element of the plan also lapsed.

Remuneration for FY 2023

Fixed Pay (Base Pay, Pensions and Benefits)

Fixed pay for Executive Directors has remained unchanged since 2019 and will not increase in 2023.

The current level of inflation is putting pressure on pay increases. Overall pay increases have been 6.3% over the year with hourly paid frontline employees who are typically the lowest paid employees in the group, seeing the largest increases. It is anticipated that pay increases for frontline workers in the coming year will again be at least at the level seen in FY 2022.

With effect from 1 January 2023 Phil Urban's salary will increase to £579,000 (5%) and Tim Jones's to £484,500 (5%). In line with our intention to reduce pension allowances for Executive Directors to the average employer contribution, increases in base pay will be entirely offset by an equal reduction in the cash equivalent pension contribution. Therefore, the pension allowance paid to Executive Directors will reduce to 5.6%. This compares with 4% for the general workforce and we anticipate that alignment will be achieved in FY 2024 in line with the approach we communicated in our remuneration policy.

There are no changes to the benefits available to Executive Directors.

Annual Bonus

The Committee has determined that the annual bonus scheme for FY 2023 will be broadly the same as that in place for FY 2022, and will be structured as follows:

- The maximum earnings opportunity will remain at 100% of base salary.
- Adjusted Operating Profit* will continue to account for 70% of the overall opportunity.
- Delivery of a threshold level of financial performance will result in a payment of 7.5% of base salary. This is a small change from the FY 2022 scheme where bonus began to accrue from the threshold level of performance. The Committee feels that this change is appropriate in the context of the target that has been set for FY 2023. The level of payout for delivery of target performance across all elements remains unchanged at 50% of base salary.
- There remains a great deal of uncertainty in relation to the cost headwinds the business may face in the coming year. The Committee has therefore decided that targets will be set for the full year but that initially a quarter one incentive target will be put in place. Achievement of this target would accrue a pro-rata bonus based on the target range set out above.
- At the end of the first quarter the Committee will consider whether it is appropriate to revise the targets set for the remainder of the year, which may result in quarterly targets being set throughout the year or a revised target being set for a longer period depending on the circumstances and outlook at the time.
- The Committee feels that this approach will ensure that targets remain appropriately stretching and can take into account the volatility that may impact costs (either way) in the year and particularly in relation to energy.

- Based on current assumptions, an on-target payout over the full year would require a sales performance well ahead of pre-pandemic levels and that a significant proportion of the anticipated cost headwinds of c. £180m will be offset through initiatives to enhance efficiency and productivity. A maximum payment would therefore represent a very strong performance.

The remaining 30% of the annual bonus plan will be allocated against the business scorecard as follows:

- 15% for Guest Health (reputation.com scores and guest complaints).
 - 10% for employee engagement.
 - 5% for Food Safety.
- For FY 2023 the guest health measurement will no longer encompass Net Promoter Score ('NPS'). Over time social media scores have become the most relevant measurement of guest satisfaction and the replacement of NPS also reflects the change in the overall Company guest KPI from NPS to reputation.com scores. The non-financial elements are only payable if a threshold level of financial performance is achieved. For FY 2023 this will be unchanged at 97.5% of Operating Profit.

Consideration was given to the introduction of further ESG measures into the annual bonus plan for FY 2023 and specifically the inclusion of a measure aligned to our sustainability strategy. On balance the Board felt that it would be more appropriate to consider how best such a measure may fit into incentive plans as part of our forthcoming remuneration policy review.

Executive Directors are also aware that the Committee may take into account other factors when assessing if any bonus may be paid as part of our established quality of earnings assessment. In particular this assessment will review the overall financial performance of the Group over the year to ensure that any payout resulting from the approach to target setting above is consistent with overall performance across the year.

Restricted Share Plan ('RSP') award FY 2023 to FY 2025

An RSP award is due to be made in respect of the FY 2023 to FY 2025 period. The Committee has agreed that the award for Executive Directors will remain at 100% of base pay.

In light of the comments raised by some shareholders last year in respect of the CFO's RSP award quantum, I have taken the opportunity as the incoming Remuneration Committee Chair to assess this level of award. When an RSP is introduced, standard practice is to grant 50% of the previous performance tested award. I therefore understand the concern of some shareholders when this was not done for the CFO. The rationale for this decision has been documented in previous reports.

The most important consideration as we plan for FY 2023 is to ensure that the CFO remuneration includes an appropriate level of long-term incentive now, rather than compared with the level two years ago. An RSP grant of 100% of salary (implying a 200% salary Performance Share Plan) for the CFO, is, in my view, a sensible ongoing level for this role. I would ask shareholders to now consider the grant in this context and I hope that you will support the view of the Committee that this level of award is appropriate for a CFO who has been in position for 12 years and who has been (and will continue to be) vital in navigating the business through the challenges it faces.

The Committee has reviewed the performance underpin which it will take into account (amongst other factors) when determining its use of discretion on whether to adjust the number of shares vesting. It concluded that the three elements of the current underpin remain appropriate and requires the Committee to consider the following:

- If any adjustments have been made to annual bonus outcomes for each of the three years covered by the vesting period for awards under the RSP;
- Whether there has been material damage to the reputation of the Company (in such circumstances, responsibility and hence any adjustments to the level of vesting may be allocated collectively or individually to participants); and
- That the business has an appropriate capital structure in place that enables the execution of our strategic priorities.

The following 'Remuneration at a Glance' section provides a short summary that demonstrates that our overall approach to Executive Remuneration has been and continues to be, measured, well balanced and appropriate.

Amanda Brown

Chair of the Remuneration Committee
6 December 2022

This report has been prepared on behalf of the Board and has been approved by the Board. The report has been prepared in accordance with the Companies Act disclosure regulations (the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) (the 'Regulations').

- 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.

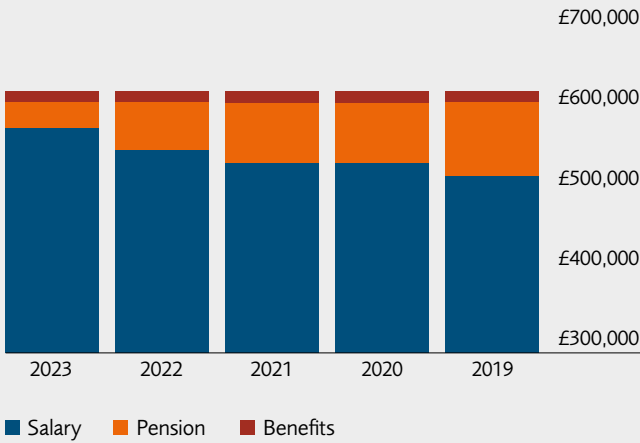
Remuneration at a glance

2022 Outcomes

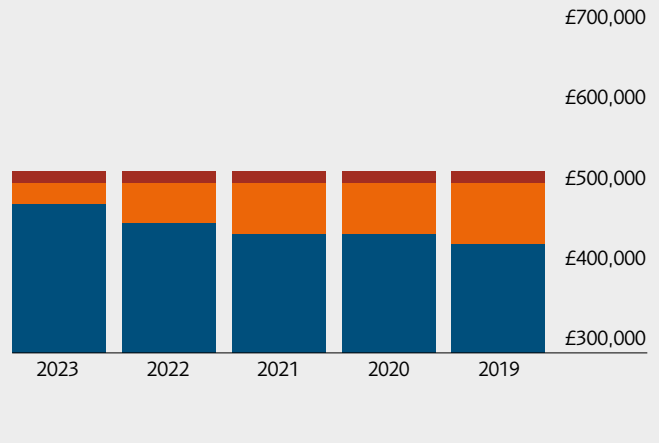
Fixed Pay (Salary, Pension and Benefits)

- Overall fixed pay has not increased since 2019.
- Increases in salary for Executive Directors have been offset entirely by an equal reduction in cash equivalent pension contributions.
- This approach will continue for 2023.

Chief Executive Fixed Pay



Chief Financial Officer Fixed Pay

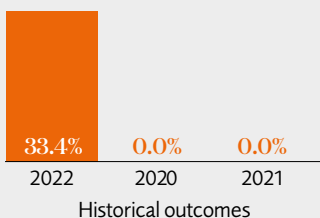


Annual Bonus

- LFL Sales growth of 1.1%
- Online Review scores at highest ever level
- Very strong employee engagement scores
- Food safety scores at highest ever level
- FY 22 Operating Profit of £240m
- Achieved 98.4% of Operating Profit bonus target
- Operating Profit broadly at pre-pandemic levels had energy costs remained flat
- 50% of the bonus award is deferred into shares
- Shares released after 12 and 24 months

Overall Outcome

33.4% of salary

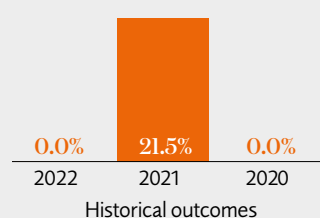


2020-2022 PRSP

- PRSP had two measures, Operating Cash Flow and Relative TSR
- Each year of the performance period impacted by Covid
- Overall Operating Cash Flow of £835m was well below the level required for threshold vesting
- TSR also below threshold required for vesting
- 2021 vesting was subject to a share price underpin that is not yet met, therefore shares have not been released to Executive Directors

Overall Outcome

0% vesting

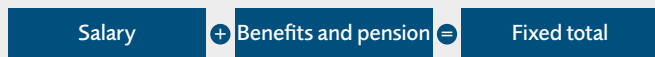


Approach for 2023

Components of remuneration

The remuneration package for the Executive Directors comprises both fixed and variable elements consistent with our remuneration principles.

Fixed:



Variable:



Fixed components – pay

With effect from 1 January 2023, Phil Urban's salary will increase by 5% to £579,000 and Tim Jones' salary will also increase by 5% to £484,500.

Phil Urban Chief Executive	£579,000
Tim Jones Chief Financial Officer	£484,500

The cash equivalent pension contribution for both Executive Directors will be reduced by an amount equal to the increase in base salary.

As a result the cash equivalent pension contribution will be 5.6%.

Variable components

Annual bonus

No change to potential quantum – 100% of salary.

Measures will be:	Operating Profit	Business scorecard measures		
		Guest Health	Engagement	Safety
	70%	15%	10%	5%

Half of any bonus payable will be deferred in the form of shares and released in equal parts after 12 and 24 months.

RSP

Award level (Phil Urban and Tim Jones)	100% of salary
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No performance conditions but vesting subject to performance underpins, assessed by the Remuneration Committee prior to vesting.

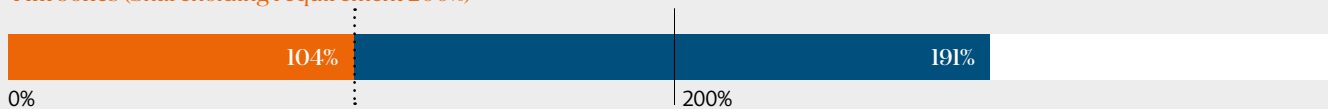
A two-year holding period applies for all long-term incentive awards.

Executive Directors' shareholdings

Phil Urban (Shareholding requirement 250%)



Tim Jones (Shareholding requirement 200%)



Owned shares (orange), Outstanding unvested awards (dark blue), Current shareholding (dotted line), Shareholding requirements (vertical line)

- Directors are required to retain all vested shares (net of tax) until the share ownership guideline is met
- Post cessation, the shareholding requirement is equal to the shareholding guideline for two years post departure with shares held in a nominee account. Transitional arrangements are in place for existing Executive Directors.

Additional remuneration information

Application of remuneration policy

A key principle of the Group's remuneration policy is that variable short-term remuneration should be linked to the financial performance of the Group and that long-term reward should provide alignment of Executives to shareholders. The charts opposite show the composition of the remuneration of the Chief Executive and Chief Financial Officer at minimum, on-target and maximum levels, including the impact of a 50% increase in share price on the LTIP outcome. The chart also shows FY 2021 and FY 2022 actual outcomes.

The performance scenarios demonstrate the proportion of maximum remuneration which would be payable in respect of each remuneration element at each of the performance levels. In developing these scenarios, the following assumptions have been made:

Minimum

Only the fixed elements of remuneration are payable. The fixed element consists of base salary, benefits and pension. Base salary is the salary effective from 1 January 2023. Benefits are based on actual FY 2022 figures and include company car allowance, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable from 1 January 2023.

On-target

In addition to the minimum, this reflects the amount payable for on-target performance under the short-term and long-term incentive plans:

- 50% of maximum (50% of base salary for the Chief Executive and Chief Financial Officer) is payable under the short-term incentive plan; and
- 100% of the award is payable under the long-term incentive plan.

Maximum

In addition to the minimum, maximum payment is achieved under both the short-term and long-term incentive plans such that:

- 100% of base salary is payable under the short-term incentive plan for the Chief Executive and Chief Financial Officer; and
- 100% of the award is payable under the long-term incentive plan.

Share price gain

This shows the impact a 50% increase in the share price would have on the RSP outcome.

Pay ratios and gender pay

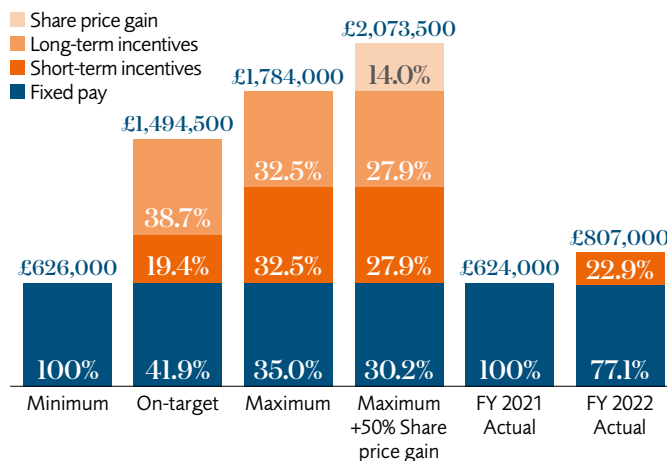
Table 1 on the right sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles.

More detail in relation to the pay ratio calculation can be found on page 17.

Table 2 on the right provides a summary of gender pay data for the Group.

Gender Pay Gap calculations in 2020 and 2021 were impacted as a result of the Coronavirus Job Retention Scheme, which meant only those working on the snapshot day were included in the calculations (c. 200 employees). The 2022 results are broadly consistent with those seen prior to 2020, although it is encouraging that across all four measures the gap has reduced.

Chief Executive



Chief Financial Officer

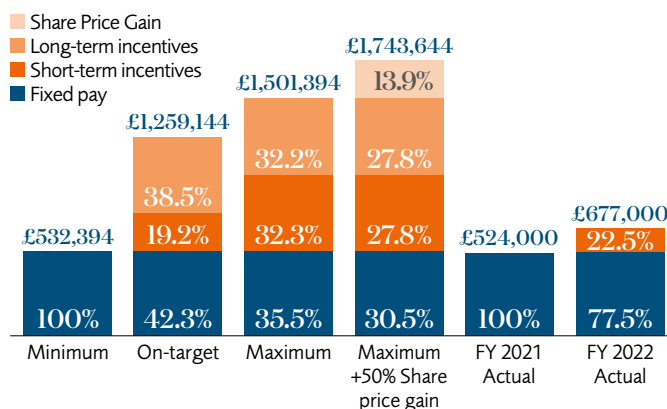


Table 1

Financial year	Chief Executive pay ratio		
	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2022	53:1	47:1	45:1
2021	41:1	38:1	36:1
2020	37:1	35:1	35:1
2019	120:1	112:1	106:1

Table 2

Financial year	Gender Pay Gap					
	2022 %	2021 %	2020 %	2019 %	2018 %	2017 %
Mean Pay Gap	5.6	20.2	29.3	6.1	7.4	8.1
Median Pay Gap	2.2	-13.1	17.3	3.2	4.7	5.2
Mean Bonus Gap	11.0	21.0	24.6	33.5	38.5	27.6
Median Bonus Gap	0.0	33.3	5.2	15.4	29.2	20.6

Mitchells & Butlers' remuneration principles

When determining Executive Director remuneration policy, the Remuneration Committee addresses each of the factors under Provision 40 of the 2018 UK Corporate Governance Code and these are also reflected in our principles:

Shareholder alignment

A high proportion of reward is delivered in the form of equity, ensuring Executives have strong alignment with shareholders.

Competitive

Providing reward that promotes the long-term success of the business whilst enabling the attraction, retention and motivation of high-calibre senior Executives.

Performance-linked

A proportion of an Executive Director's reward is linked to performance, with a clear line of sight between the outcomes of the business and the delivery of shareholder value.

Straightforward

The remuneration structure is simple to understand for participants and shareholders and is aligned to the strategic priorities of the business.

These same principles apply throughout the organisation and are adapted as appropriate for specific employee groups with a different emphasis on certain principles in comparison to Executive Directors. This is illustrated in the table on page 97 which sets out remuneration below Executive Director level.

For senior management, a much greater proportion of the overall reward package is performance linked and therefore is variable and at risk, whereas for our hourly paid colleagues a greater weighting applies to the competitive and straightforward principles as these factors are more important to the attraction and retention of these employees.

Below are two practical examples of how the remuneration principles apply to different employee groups:

General Managers

A competitive package is important for this group as they are fundamental to the day-to-day success of the business and the current recruitment market remains challenging in some geographical areas, with a shortage of high-calibre managers. As with Executive Directors, a high proportion of potential reward for this group is based on performance and the overall structure is straightforward to understand. There is a lesser weighting on equity, but all General Managers can participate in any of the all-employee share schemes, subject to qualifying service, thereby building their own stake in the business.

Hourly Paid Employees

The recruitment market has become very challenging for the sector as a result of changes to immigration policy following Brexit. In addition, the Covid-19 pandemic has seen many EU workers return home and some UK workers leave the industry during the long periods of furlough. Therefore, competitive pay remains a priority and, in particular, for skilled kitchen roles where there remains a shortage of high-quality talent and this has resulted in increased rates of pay for this group in particular. Although base pay for our hourly paid team members is not linked to performance, there is a strong link to performance where there are opportunities to earn tips and where a service charge is applied (100% of which is retained by the team with no administration charge), and, more broadly, the good performance of the Company allows for more investment in pay. Pay structures for this group are straightforward and, as with other employees, hourly paid team members can participate in any of the all-employee share schemes, subject to qualifying service.

Alignment of Executive pay to strategy

The table below sets out how the three strategic priorities of the business align to executive remuneration for Executive Directors:

	Strategic priority	Link to Executive remuneration
Building a more balanced business	Strong operating performance supports the delivery and sustainability of the capital plan and estate optimisation.	Operating Profit delivery is the main component of the annual bonus plan. The RSP enables senior management to focus on long-term sustainable performance without the risk of being in conflict with the achievement of performance targets that have been set over a predetermined period.
	A more balanced business delivers brands and food and drink offers in an environment that guests want to enjoy.	The Guest Health element of the annual bonus plan provides a strong indicator of the success of each business. There is a clear correlation between strong Guest Health performance and sales performance.
	High-quality engaged teams are fundamental to the success of any business.	The engagement element of the annual bonus plan measures how our teams feel about working for Mitchells & Butlers, and, in turn, the service they provide to guests.
Instilling a more commercial culture	A commercial culture improves controls, efficiency, purchasing and pricing, driving both improved cash flow and operating performance.	Operating Profit delivery is the main component of the annual bonus plan.
	Commercial decisions must be guest focused and benefit from the input of customer feedback.	The Guest Health metric quickly demonstrates where decisions are right or wrong and Executives are incentivised to react.
	Developing and evolving a commercial culture requires high levels of employee engagement and business awareness throughout the business.	The employee engagement element of the annual bonus plan supports and underpins the development of culture.
Driving an innovation agenda	Innovation at small and large scale is an engine for improved sales and, therefore, cash and profit generation.	The RSP enables a focus on innovation without the risk of being in conflict with the achievement of performance targets that have been set over a predetermined period.
	Guests' expectations continue to increase, demanding higher standards of service and digital capability.	Operating Profit delivery is the main component of the annual bonus plan. The Guest Health element of the annual plan provides valuable actionable feedback and incentivises action.
	Innovation involves change, and delivery of change requires strong employee engagement.	The employee engagement element of the annual bonus plan incentivises action to maintain and improve employee engagement.

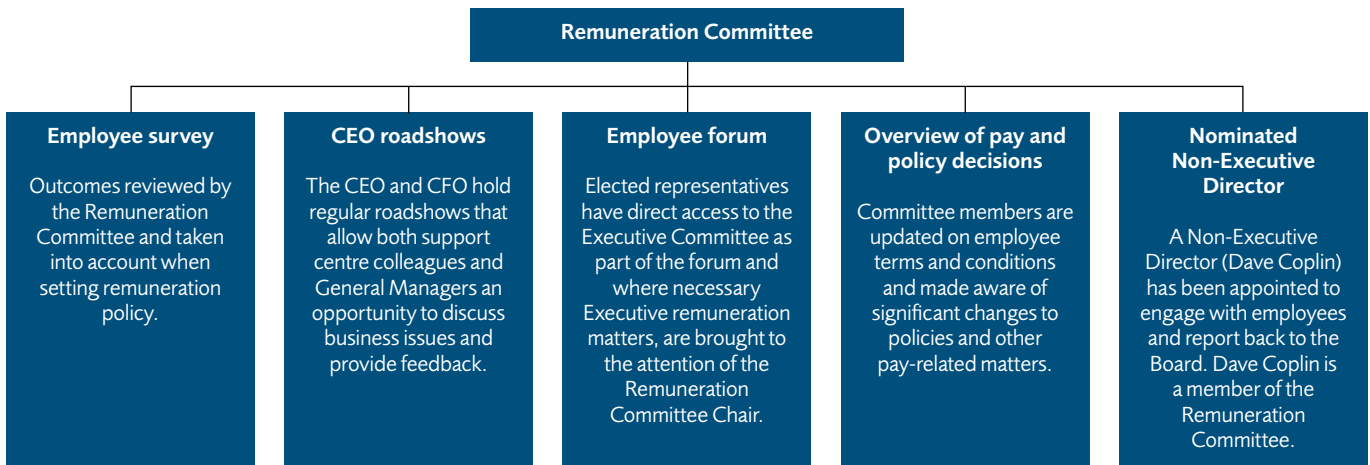
Remuneration below Executive Director level

The table below demonstrates how the key elements of Executive pay align with the wider workforce:

Job Group (Number of employees)	Base pay	Bonus	Long-term incentives	All-employee share plans
Executive Directors (2)	Pay broadly around mid-market levels.	Bonus schemes for all schemes align to the business scorecard.	Measures and targets for long-term incentive plans consistent for all participants.	All employees can participate in any of the all-employee share schemes, subject to qualifying service, building a stake in the business.
Executive Committee (8)				
Senior management (c. 40)				
Retail Support Centre (c. 1,050)	Overall, increases (in percentage terms) consistent across all salaried employee groups.	The majority of bonus opportunity is linked to financial performance.		
Retail managers (c. 5,100)				
Retail team members (c. 37,000)	Pay set in line with market requirements and closely monitored. Base pay for many employees is ahead of the statutory minimums. Many employees benefit from tips and service charge, and it is Mitchells & Butlers' policy to pass 100% of these earnings on to employees.	Our pay approach is aimed at providing regular and predictable earnings through competitive base pay for our retail team members. This is valued more highly than variable pay elements by retail team members and is in line with our 'competitive' and 'straightforward' remuneration principles.		

Workforce engagement

We welcome and encourage feedback from employees on a broad range of topics including business improvement, engagement and remuneration. This feedback is gathered in a number of ways throughout the year as shown in the illustration below:



The Committee is regularly updated throughout the year on pay and conditions applying to Group employees alongside other workforce-related matters.

Where significant changes are proposed to employment conditions and policies elsewhere in the Group, or there are important employee-related projects underway, these are highlighted for the attention of the Committee at an early stage. Over the course of FY 2022, these updates have focused on employee engagement, the challenges of the current recruitment landscape and strategies to rebuild capability, including the reinvigoration of our internal training and development routes, which also encompass our apprenticeship programmes.

The Committee takes into account the base pay review budget applicable to other employees when considering the pay of Executive Directors. The Committee considers a broad range of reference points when determining policy and pay levels. These include external market benchmarks as well as internal reference points. Any such reference points are set in an appropriate context and are not considered in isolation.

Obtaining and understanding the views of our employees, including in relation to Executive Remuneration, is an important consideration for the Committee when developing and operating our overall approach to remuneration across Mitchells & Butlers. In addition to our approach to communicating with our employees, we also welcome feedback and all employees are invited to take part in our employee engagement surveys. These provide all employees with an opportunity to give anonymous feedback on a wide range of topics of interest or concern to them. The Committee reviews these results and any significant concerns over remuneration would be considered separately by the Committee and, if appropriate, taken into account when determining the remuneration approach and its implementation.

An employee forum is normally held twice every year, which gives an opportunity for employees to ask questions of senior management via elected representatives, and which from FY 2020 has been attended by Dave Coplin. This forum was suspended during the pandemic but resumed in March 2022, with a second forum held in September 2022. The Executive team find these forums very valuable, as the format allows for a more in-depth discussion and understanding that is not possible through other channels such as surveys.

In addition, in his role as the nominated Non-Executive Director, Dave Coplin undertakes a number of activities ranging from visits to our businesses to meet and discuss issues with employees to focus groups with specific employee groups such as Kitchen Managers. Dave meets regularly with members of the Human Resources team and is also supporting the business in how it may utilise technology to better communicate with all employees.

The views of employees in relation to Executive Remuneration have been sought in the past and this issue was not proved to be an area of interest or concern for employees at this time. Our engagement survey has a section that allows employees to anonymously raise any concerns they may have on any matter, and in 2022 there were over 11,000 comments recorded, none of which related to senior management pay. The Committee will continue to explore how best to engage with employees on this issue.

Annual report on remuneration

This section details the remuneration payable to the Executive and Non-Executive Directors (including the Chairman) for the financial period ended 24 September 2022 and how we intend to implement our remuneration policy for FY 2023. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the 2023 AGM.

The Committee are cognisant of all guidance issued by institutional shareholders and advisory agencies and take this into account during the year based on the guidance in place at the start of our financial year. It is noted that guidance is regularly updated, and any changes will be taken into consideration in the next relevant reporting period.

Committee terms of reference

The Committee's terms of reference were reviewed and updated in 2019 to take account of the 2018 UK Corporate Governance Code.

The Committee's main responsibilities include:

- determining and making recommendations to the Board on the Company's executive remuneration policy and its cost;
- taking account of all factors necessary when determining the policy, the objective of which is to ensure that the remuneration policy promotes the long-term success of the Company;
- determining the individual remuneration packages of the Executive Directors and other senior Executives (including the Group General Counsel and Company Secretary and all direct reports to the Chief Executive) and, in discussion with the Executive Directors, the Company Chairman;
- having regard to the pay and employment conditions across the Company when setting the remuneration of individuals under the remit of the Committee; and
- aligning Executive Directors' interests with those of shareholders by providing the potential to earn significant rewards where significant shareholder value has been delivered.

Committee membership and operation

Committee members and their respective appointment dates are detailed in the table below.

Name	Date of appointment to the Committee
Amanda Brown ^a	4 July 2022
Bob Ivell	11 July 2013
Dave Coplin ^a	29 February 2016
Josh Levy	20 July 2017
Jane Moriarty ^a	27 February 2019

a. Independent Non-Executive Directors.

Committee activity during the year

Following Imelda Walsh's decision to step down from the Board and Chair of the Remuneration Committee in July 2021 and until the appointment of Amanda Brown in July 2022, remuneration matters were dealt with at the main Board. Since July 2022 the Committee met once. Key remuneration items considered over the year were as follows:

October 2021 (Main Board)	<ul style="list-style-type: none"> • CEO pay review • Executive Committee pay review • FY 2022 Annual bonus targets
November 2021 (Main Board)	<ul style="list-style-type: none"> • FY 2019 PRSP vesting outcome • FY 2022 Restricted Share Plan award • Employee engagement targets • Executive Director and Executive Committee pay review • Employee engagement update
March 2022 (Main Board)	<ul style="list-style-type: none"> • All employee share schemes • Restricted Share Plan approach for FY 2023
April 2022 (Main Board)	<ul style="list-style-type: none"> • Approach to 2019 PRSP underpin • Restricted Share Plan approach for FY 2023 • Employee engagement update
September 2022 (Committee)	<ul style="list-style-type: none"> • FY 2023 Annual Bonus Plan structure • Employee conditions update • Governance update • All employee Share Scheme rules review

Advice to the Committee

The Committee received advice from PwC LLP ('PwC') during the year. PwC were appointed following a competitive tender process during 2018. PwC are signatories to the Remuneration Consultants Group Code of Conduct and any advice received is governed by that Code. Total fees payable in respect of remuneration advice to the Committee in the reporting year totalled £8,375^b and were charged on a time and materials basis.

Advice was also received from the Company's legal advisers, Freshfields Bruckhaus Deringer LLP, on the operation of the Company's employee share schemes and on corporate governance matters. Clifford Chance LLP also provided advice in relation to pension schemes.

The Committee is satisfied that the advice received from its advisers was objective and independent and that the PwC engagement partner and the team that provide remuneration advice to the Committee do not have any connections that may impair their independence.

Members of management including Susan Martindale, the Group HR Director, and Craig Provett, the Director of Compensation and Benefits, are invited to attend meetings on remuneration matters where appropriate. They are not present when matters affecting their own remuneration arrangements are discussed. The Company Chairman does not attend Board or Committee meetings when his remuneration is under review.

Phil Urban and Tim Jones were present at meetings where the Company's long-term and short-term incentive arrangements and share schemes were discussed. However, each declared an interest in the matters under review and did not vote on their own arrangements.

b. Fees are shown net of VAT. 20% VAT was paid on the advisers' fees shown above.

Statement of voting at the AGM

At the last AGM (held on 25 January 2022), a resolution on the annual report on remuneration was subject to an advisory vote. The table below sets out details of this advisory vote and the outcome of the vote on our remuneration policy at the 2021 AGM:

	Votes cast		Votes for ^a		%	Votes against		%	Votes withheld ^b
Approval of annual report on remuneration	528,299,309	414,751,850	78.51	113,547,459	21.49	100,541			
Approval of remuneration policy at 2021 AGM	516,340,056	425,892,672	82.48	90,447,384	17.52	61,932			

a. The 'For' vote includes those giving the Company Chairman discretion.

b. A vote withheld is not a vote in law and is not counted in the calculation of the votes 'For' or 'Against' the resolution.

Votes 'For' and 'Against' are expressed as a percentage of votes cast.

Pay outcomes

The tables and related disclosures set out on pages 99 to 103 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP and RSP share options, Share Incentive Plan and pension benefits have been audited by KPMG LLP.

Directors' remuneration

The tables below set out the single figure remuneration received by the Executive Directors and the Non-Executive Directors during the reporting year.

Executive Directors (audited by KPMG)

	Basic salaries £000		Taxable benefits ^a £000		Short-term incentives £000		Pension-related benefits ^b £000		Long-term incentives £000		Other ^c £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021
Phil Urban	546	534	15	14	182	–	64	76	–	–	3	3	810	627	628	627	182	–
Tim Jones	457	447	15	14	152	–	53	63	–	–	2	2	679	526	527	526	152	–
Sub-total Executive Directors	1,003	981	30	28	334	–	117	139	–	–	5	5	1,489	1,153	1,155	1,153	334	–

Non-Executive Directors (audited by KPMG)

	Fees £000		Taxable benefits ^a £000		Short-term incentives £000		Pension-related benefits ^b £000		Long-term incentives £000		Other £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021	FY 2022	FY 2021
Bob Ivell	284	284	1	–	–	–	–	–	–	–	–	–	285	284	285	284	–	–
Ron Robson ^e	–	45	–	–	–	–	–	–	–	–	–	–	45	45	45	45	–	–
Eddie Irwin	53	53	–	–	–	–	–	–	–	–	–	–	53	53	53	53	–	–
Colin Rutherford ^f	–	53	–	–	–	–	–	–	–	–	–	–	53	53	53	53	–	–
Imelda Walsh ^f	–	53	–	–	–	–	–	–	–	–	–	–	53	53	53	53	–	–
Josh Levy	53	53	–	–	–	–	–	–	–	–	–	–	53	53	53	53	–	–
Dave Coplin	66	66	–	–	–	–	–	–	–	–	–	–	66	66	66	66	–	–
Keith Browne	53	53	–	–	–	–	–	–	–	–	–	–	53	53	53	53	–	–
Susan Murray ^g	22	66	–	–	–	–	–	–	–	–	–	–	22	66	22	66	–	–
Jane Moriarty	76	56	0.5	–	–	–	–	–	–	–	–	–	76.5	56	76.5	56	–	–
Amanda Brown ^h	15	–	–	–	–	–	–	–	–	–	–	–	15	–	15	–	–	–
Sub-total Non-Executive Directors	622	782	1.5	–	–	–	–	–	–	–	–	–	623.5	782	623.5	782	–	–
Total Executive Directors and Non-Executive Directors	1,625	1,763	31.5	28	334	–	117	139	–	–	5	5	2,112.5	1,935	1,778.5	1,935	334	–

a. Taxable benefits for the year comprised car allowance, healthcare and taxable expenses.

b. Based on the value of supplements paid in lieu of contributions to the Company Scheme.

c. Includes free shares awarded under the SIP.

d. Taxable benefits for Non-Executive Directors include cash payments made or accounted for by the Company relating to the reimbursement of expenses (and the value of personal tax on those expenses).

e. Ron Robson stepped down from the Board on 31 July 2021.

f. Imelda Walsh and Colin Rutherford stepped down from the Board on 19 July 2021.

g. Susan Murray stepped down from the Board on 25 January 2022.

h. Amanda Brown joined the Board on 4 July 2022.

Annual bonus

Annual performance bonus and STDIP

The annual bonus and STDIP operate as set out in our remuneration policy which is available on the Company's website. Details of the measures and targets applying to the 2022 plan are set out below^b:

	Threshold – 95% of Target (% of salary payable)	Target (% of salary payable)	Maximum – 103% of Target (% of salary payable)	Outcome (% of salary payable)
Adjusted Operating Profit (70%) (Periods 8-13)	£159.3m (0%)	£167.7m (21.5%)	£172.7m (43%)	£165m ^a (14.6%)

	Threshold	Target	Calculation of outcome (% of salary payable)	Performance (Score)	Outcome (% of salary payable)
Guest Health (15%)					
Net Promoter Score ('NPS')	55.0	60.0	Each element is scored 1 if better than target, 0 if between threshold and target, and -1 if below threshold.	50.5 (-1)	0 (3.75%)
Social Media Score	4.2	4.3		4.32 (+1)	
Complaints Ratio	0.80	0.70		0.79 (0)	
			<ul style="list-style-type: none"> If the sum of these scores is +3 then maximum bonus is paid (15%). If the sum of these scores is +1 or +2 then an on-target payment would be made (7.5%). If the sum of these scores is 0 then threshold bonus is paid (3.75%). 		

	Threshold (% of salary payable)	Target (% of salary payable)	Maximum (% of salary payable)	Outcome (% of salary payable)
Employee Engagement (10%) ^a	78.5 (2.5%)	79.5 (5%)	80.5 (10%)	80.8 (10%)
Food Safety (5%)		98.5% (5%)		99.5% (5%)

a. Payout is on a straight-line basis between points.

Financial measures

Operating Profit (Outcome 14.6% out of 43%)

In the hope of a more stable FY 2022, the Board set Operating Profit targets at the start of the financial year for the Company incentive schemes. By the end of the first quarter, a number of things had changed. The emergence of the Omicron variant had a significant impact on Christmas trading, the cost headwinds the business was facing were far in excess of those anticipated at the start of the financial year and it was also clear that consumer confidence would be weakened as a result of much higher inflation and, in particular, increases in household energy costs.

At the beginning of the second quarter, the Board reviewed performance and, taking into account the significant shift in the financial outlook concluded that the targets set were no longer appropriate for the c. 6,000 employees across the Group that we were trying to incentivise, at the same time highlighting a significant retention and motivation risk.

The Board therefore determined it would be appropriate to set a target for the final eight periods of the year (April to end September) but with a corresponding reduction in bonus opportunity. This approach applied to all those employees eligible to participate in an incentive plan and included c. 5,000 critical frontline managers as well as the Executive Team and Executive Directors.

For the Executive Directors, this meant that the financial performance in the first five periods of the financial year was measured against the original targets set in respect of this period. As these targets were not achieved, no bonus will be awarded in respect of this period.

The Operating Profit target for the remainder of the financial year was set following a reforecast of the business in the light of the escalating cost pressures, notably in food and energy costs. This resulted in an Operating Profit target of £167.7m in respect of this period. The Board determined that this pro-rata target was at least as challenging as the full year target and provided a fair and proportionate level of incentive for Executives in what would be a very challenging year.

As this target now covered a part year, the overall earnings opportunity for this element was reduced accordingly on a pro-rata basis from 70% to 43% of base pay.

The same performance range applied to the revised target with earnings beginning to accrue at 95% of the target and maximum at 103% of target.

The same approach to annual incentives was applied to all retail support centre colleagues. For frontline management employees a pro-rata approach was put in place on the same basis. In addition, where any bonus was earned by any employees in this group against the earlier period's targets, this was also paid.

The overall Operating Profit outcome over the financial year was £240m, and £165m for the period between April and the end of September equivalent to 98.4% of the eight period target resulting in a bonus payment equivalent to 14.6% of salary out of 43%) for Executive Directors.

b. The measures, targets and outcomes are not audited.

Guest Health (3.75% out of 15%)

The measurement of Guest Health comprises a combination of three elements, Net Promoter Score ('NPS'), a combined social media score ('reputation.com') and guest complaints.

For FY 2022 the NPS target was set at 60, broadly equivalent to the scores seen prior to the pandemic, however the overall score for this element fell short of this demanding target at 50.5.

The target for the reputation.com score was set at 4.3, which would represent a highest ever score and a further improvement on the FY 2021 outcome of 4.18. The reputation.com measure has become the primary indicator of guest satisfaction in recent years and provides the strongest correlation to sales performance. Good progress was made over FY 2022 and the overall score was 4.32, just ahead of the target set by the Committee.

The guest complaints metric measures the proportion of complaints received for every 1,000 meals served. The target for this measure was set at 0.70. The overall outcome of 0.80 fell very slightly short of this demanding target but did meet the threshold level of performance required under this element.

Based on combined scores across three guest health metrics, the overall outcome is at the threshold level of performance and, as a result, a payout equivalent to 3.75% (out of 15%), was awarded to Executive Directors under this element.

Employee Engagement (10% out of 10%)

During FY 2022 the business reverted back to undertaking two engagement surveys each year. In June employees are able to provide feedback through a comprehensive survey, 'YourSay' and a shorter pulse survey takes place in February. Around two thirds of employees participate in the survey which provides valuable feedback, not only through the scoring mechanism but also from free text comments provided by employees. This year over 11,000 comments were received in the main YourSay survey, a summary of which was presented to the Remuneration Committee.

A clear correlation between employee engagement scores, guest satisfaction and, in turn, sales performance has been proven over a number of years. Throughout FY 2022 our teams have faced many challenges, including supporting the recovery of the business in the early part of the financial year, ongoing shortages of team members and difficulties in the supply chain which ultimately impact on our guests and therefore can be challenging for our teams to manage at the frontline.

The target for FY 2022 was based on a combined score with a greater weighting placed on the more comprehensive YourSay score. The final outcome was a combined score of 80.8, which is the second highest ever combined score, just very slightly behind the score achieved in 2019 (81.3) and above the target required for a maximum payment (80.5).

As a result, a payment equivalent to 10% was awarded to Executive Directors under this element.

Food Safety (5% out of 5%)

Food safety will always be a priority for the business, which is why a measure was introduced that is based on the number of businesses that achieve either a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS'). The stretching target set for 2022 was for 98.5% of businesses (of which we have 1,636) to achieve a score of either 4 or 5 over the year and the actual result was that 99.5% of businesses achieved this level of performance and the Group retained its second place in the league table for large pub and restaurant groups.

As an additional check, the Committee has also taken into account overall workplace safety which again has been strong in all areas.

The structure for this element is such that payout is based entirely on achieving the target set, therefore a payout equivalent to 5% was triggered against this element.

Overall outcome

The total bonus awarded to Executive Directors is 33.4% of salary, resulting in bonus payments of £182,241 and £152,491 to Phil Urban and Tim Jones respectively.

In line with our policy, half of any bonus award will be deferred into shares under the Short Term Deferred Incentive Plan ('STDIP'), which will be released in two equal amounts after 12 and 24 months. Bonus Share awards are subject to continued employment. These shares must be retained until the shareholding requirement is met and are subject to a post-cessation holding period.

Long-term incentives vesting during the year

FY 2020 PRSP vesting

During FY 2020 share awards were made to Phil Urban and Tim Jones under the terms of the PRSP to the value of 200% and 140% of their respective salaries.

The 2020/22 PRSP performance condition had two independent elements, Operating Cash Flow before separately disclosed items (75% weighting and hereafter referred to as Operating Cash Flow) and relative TSR performance against a group of sector peers (25% weighting).

2020/22 PRSP – performance conditions	Threshold (25%) to maximum (100%) range ^a	Actual	% vesting
Operating Cash Flow (75% of the award)	£1,509m to £1,539m	£835m	Nil
Total Shareholder Return relative to peer group ^b (25% weighting)	25% would vest for matching the median of the group. 100% would vest for TSR performance that exceeds the median by 8.5% p.a. subject to a share price underpin	-41.3%	Nil

a. Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.

b. Comprising the constituents of the All Share Travel and Leisure Group.

Long-term incentive awards made during FY 2022

An award for FY 2022/24 was made to the Chief Executive and the Chief Financial Officer in November 2021 in accordance with the rules of the RSP and within the approved remuneration policy.

The RSP is not subject to further performance conditions. However, the Committee will take into account the following factors (amongst other things) when determining whether to exercise its discretion to adjust the number of shares vesting:

- if any adjustments have been made to annual bonus outcomes for each of the three years covered by the vesting period for awards under the RSP;
- whether there has been material damage to the reputation of the Company (in such circumstances, responsibility and hence any adjustments to the level of vesting may be allocated collectively or individually to participants); and
- that the business has a stable and appropriate capital structure in place following the cessation of restrictions on trade due to the Covid-19 pandemic that enables the recovery of the business and execution of the Company's strategic priorities.

Full details of awards made to Executive Directors under the RSP are set out below (audited by KPMG):

Executive Directors	Nil Cost Options awarded during the year to 24/09/22	Basis of award (% of basic annual salary)	Award date	Market price per share used to determine the award (p) ^a	Actual/ planned vesting date	Latest lapse date ^b	Face value ^c £
Phil Urban	226,810	100	Nov 2021	236.1	Nov 2024	Feb 2025	554,324
Tim Jones	189,750	100	Nov 2021	236.1	Nov 2024	Feb 2025	463,749
Total	416,560						1,018,073

a. Market price is the average of the middle market quotation on the three days prior to the award being made.

b. The date on which vested shares will lapse if not exercised.

c. Face value is the maximum number of shares that may vest (excluding any dividend shares that may accrue) multiplied by the middle market quotation of a Mitchells & Butlers share on the day the award was made (244.4p).

All-employee SIP

The table below shows the awards made to Directors under the free share element of the SIP during the year (audited by KPMG).

SIP

Executive Director	Shares awarded during the year to 24/9/22	Award date	Market price per share at award (p)	Normal vesting date	Market price per share at normal vesting date (p)	Lapsed during period
Phil Urban	1,455	20/6/22	206.4	20/6/25	n/a	–
Tim Jones	1,217	20/6/22	206.4	20/6/25	n/a	–
Total	2,672					–

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 103.

PRSP, RSP, STDIP and SAYE

The table below sets out details of the Executive Directors' outstanding awards under the PRSP, RSP, STDIP and Sharesave ('SAYE') (audited by KPMG).

Executive Director	Scheme	Number of shares at 25 September 2021	Granted during the period	Lapsed during the period	Exercised during the period	Number of shares at 24 September 2022
Phil Urban	PRSP	668,835	–	326,239	–	342,596
	RSP	173,807	226,810	–	–	400,617
	STDIP	26,032	–	–	26,032	–
	SAYE	15,142	–	–	8,111	7,031
	Total	883,816	226,810	326,239	34,143	750,244
Tim Jones	PRSP	391,575	–	190,977	–	200,598
	RSP	145,407	189,750	–	–	335,157
	STDIP	21,775	–	–	21,775	–
	SAYE	8,111	–	–	8,111	–
	Total	566,868	189,750	190,977	29,886	535,755

Directors' interests

Executive Directors are expected to hold Mitchells & Butlers shares in line with the shareholding guideline set out in the approved remuneration policy.

This requires the Chief Executive to accumulate Mitchells & Butlers shares to the value of a minimum of 250% of salary (200% of salary for the CFO) through the retention of shares arising from share schemes (on a net of tax basis) or through market purchases. Phil Urban's shareholding at 24 September 2022 was 119.3% of his basic annual salary (2021 188.5%) and Tim Jones's shareholding was 109.6% of his basic annual salary (2021 167.4%) and as a result the shareholding guideline is not met at this time. In line with the remuneration policy, no shares can be sold until the guideline is met and post-cessation holding requirements are in place.

Executive Directors' shareholdings are calculated based on the average share price over the final three months of the financial period; for FY 2022 this was 173.1p (FY 2021 277.4p). Prior to the Covid-19 pandemic, based on the projected outcomes for both short-term and long-term incentive plans it was anticipated that both Executive Directors would have met the shareholding requirement by the end of 2020.

The interests of the Directors in the ordinary shares of the Company as at 25 September 2021 and 24 September 2022 are as set out below:

	Wholly-owned shares without performance conditions ^a		Unvested shares with performance conditions		Unvested shares without performance conditions ^a		Unvested options without performance conditions ^a		Unvested options with performance conditions/underpins ^d		Vested but unexercised options		Total shares/options	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Executive Directors														
Phil Urban	397,775	363,868	–	–	–	26,032	7,031	15,142	743,213	842,642	–	–	1,130,180	1,247,684
Tim Jones	292,092	270,404	–	–	–	21,775	–	8,111	535,755	536,982	–	–	827,847	837,272
Non-Executive Directors														
Bob Ivell	17,222	17,222	–	–	–	–	–	–	–	–	–	–	17,222	17,222
Eddie Irwin	43,883	43,883	–	–	–	–	–	–	–	–	–	–	43,883	43,883
Dave Coplin	2,836	2,836	–	–	–	–	–	–	–	–	–	–	2,836	2,836
Josh Levy	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Keith Browne	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Susan Murray ^e	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Jane Moriarty	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Amanda Brown	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total	753,808	698,213	–	–	–	47,807	7,031	23,253	1,278,968	1,379,624	–	–	2,039,807	2,148,897

- Includes Free Shares and Partnership Shares granted under the SIP.
- Deferred bonus awards granted under the STDIP.
- Options granted under the Sharesave as detailed in the table on page 102.
- Options granted under the PRSP or RSP as detailed in the table on page 102.
- Susan Murray stepped down from the Board on 25 January 2022.

Directors' shareholdings (shares without performance conditions) include shares held by persons closely associated with them.

The above shareholdings are beneficial interests and are inclusive of Directors' holdings under the Share Incentive Plan (both Free Share and Partnership Share elements).

Phil Urban and Tim Jones acquired 217 and 218 shares respectively under the Partnership Share element of the Share Incentive Plan between the end of the financial period and 6 December 2022. There have been no changes in the holdings of any other Directors since the end of the financial period.

None of the Directors has a beneficial interest in the shares of any subsidiary or in debenture stocks of the Company or any subsidiary.

The market price per share on 24 September 2022 was 151.6p and the range during the year to 24 September 2022 was 266.8p to 149.1p per share.

The Executive Directors as a group beneficially own 0.1% of the Company's shares.

Fees for external directorships

No external non-executive directorships were held by either Executive Director during the year to 24 September 2022.

Payment for loss of office

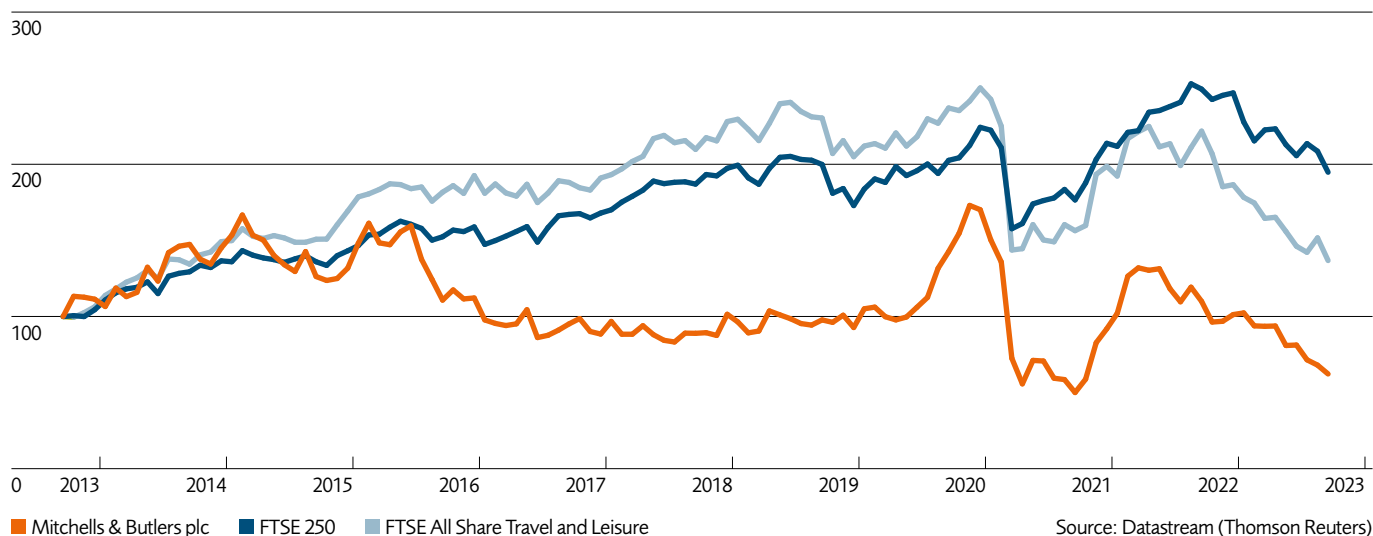
No payments for loss of office were made in the year ended 24 September 2022.

Payments to past Directors

No payments were made to any past Directors in the year ended 24 September 2022.

Total shareholder return from September 2012 to September 2022 (rebased to 100)

This graph shows the value, by 24 September 2022, of £100 invested in Mitchells & Butlers plc on 24 September 2012, compared with the value of £100 invested in the FTSE 250 and the FTSE All Share Travel and Leisure index.

**CEO earnings history**

Year ended	28/09/13	27/09/14	26/09/15	24/09/16	30/09/17	29/09/18	28/09/19	26/09/20	25/9/21	24/9/22
Phil Urban										
Single figure remuneration (£000)	–	–	–	613	770	819	1,684	553	627	810
Annual bonus outcome (% of max)	–	–	–	–	28	39	82	–	–	33
LTIP vesting outcome (% of max)	–	–	–	–	–	–	47.5	–	–	–
Alistair Darby										
Single figure remuneration (£000)	982 ^a	642	878	–	–	–	–	–	–	–
Annual bonus outcome (% of max)	71.0	–	–	–	–	–	–	–	–	–
LTIP vesting outcome (% of max)	n/a	n/a	19.0	–	–	–	–	–	–	–
Bob Ivell										
Single figure remuneration (£000)	69 ^b	–	–	–	–	–	–	–	–	–
Annual bonus outcome (% of max)	n/a ^c	–	–	–	–	–	–	–	–	–
LTIP vesting outcome (% of max)	n/a ^c	–	–	–	–	–	–	–	–	–

a. Alistair Darby formally took up the position of CEO on 12 November 2012 following a short period of induction and handover. The figure shown reflects the date of his appointment to the Board (8 October 2012).

b. Figure shown is up to and including 11 November 2012 as Bob Ivell remained Executive Chairman to this date.

c. The Director was not a participant in the plan.

Year-on-year change in remuneration of Directors compared to an average employee

	2022			2021		
	Salary/Fees	Bonus	Benefits	Salary/Fees	Bonus	Benefits
Average employee	5.6%	32.2%	-14.0%	1.2%	81.6%	6.3%
Executive Directors						
Phil Urban	2.2%	100.0%	3.1%	0.00%	0.00%	-1.4%
Tim Jones	2.2%	100.0%	5.9%	0.00%	0.00%	-3.3%
Non-Executive Directors						
Bob Ivell	0.0%	0.0%	-60.4%	0.0%	0.0%	-25.4
Eddie Irwin	0.0%	0.0%	0.0%	0.0%	0.0%	0
Dave Coplin	0.0%	0.0%	-93.2%	0.0%	0.0%	-74.0
Josh Levy	0.0%	0.0%	-100.0%	0.0%	0.0%	225.1
Keith Browne	0.0%	0.0%	0.0%	0.0%	0.0%	-59.2
Jane Moriarty	34.8%	0.0%	-54.3%	24.5%	0.0%	443.9
Amanda Brown	100.0%	0.0%	0.0%	n/a	n/a	n/a

Salaries and fees are based on rates at the year-end date on a full time equivalent ('FTE') basis. The increase in fees for Jane Moriarty reflects the additional fee received as Chair of the Audit Committee. Hourly paid employees do not participate in any bonus scheme and in most cases are not eligible for taxable benefits. The figures shown for these elements are based on the year-on-year change for eligible employees.

The figures for Executive Directors do not include LTIP awards or pension benefits that are disclosed in the single figure table. The benefit figures for Non-Executive Directors relate to taxable expenses as detailed in the single figure table on page 99.

Pay ratios

The table below sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles for 2022. Data is also presented for 2018 as Mitchells & Butlers has disclosed the pay ratio between the Chief Executive and the median pay of other employees for the last four years, despite not needing to comply with this requirement until the 2020 Annual Report.

Financial year	Chief Executive pay ratio			
	Method	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
2022	Option C	53:1	47:1	45:1
2021	Option C	41:1	38:1	36:1
2020	Option C	37:1	35:1	35:1
2019	Option C	120:1	112:1	106:1
2018	Option C	61:1	58:1	52:1

The lower quartile, median and upper quartile employees were calculated based on full-time equivalent base pay data as at 24 September 2022. This calculation methodology was selected as the data was felt to be the most accurate way of identifying the best equivalents of P25, P50 and P75 and, therefore, the most accurate measurement of our pay ratios. Of the three allowable methodologies under the legislation, this method is classed as 'Option C'. Option A was considered but given the high levels of team member turnover, it was felt more appropriate to adopt the approach set out above.

The employee pay data has been reviewed and the Committee is satisfied that it fairly reflects the relevant quartiles given the very large proportion of hourly paid team members employed by Mitchells & Butlers (c. 85% of the total workforce). The three representative employees used to calculate the pay ratios are hourly paid and the base pay elements were calculated using a full-time equivalent hourly working week of 35 hours. Hourly paid employees do not participate in the annual bonus plan or long-term incentive plan and in most cases do not have any taxable benefits. Employee pay does not include earnings from tips and service charge, from which many employees benefit. It is Mitchells & Butlers' policy to pass all earnings from tips and service charges to employees without deduction for administration. The calculations are based on the single figure methodology and exclude the value of any awards under the free share element of the SIP.

Pay details for the individuals are set out below:

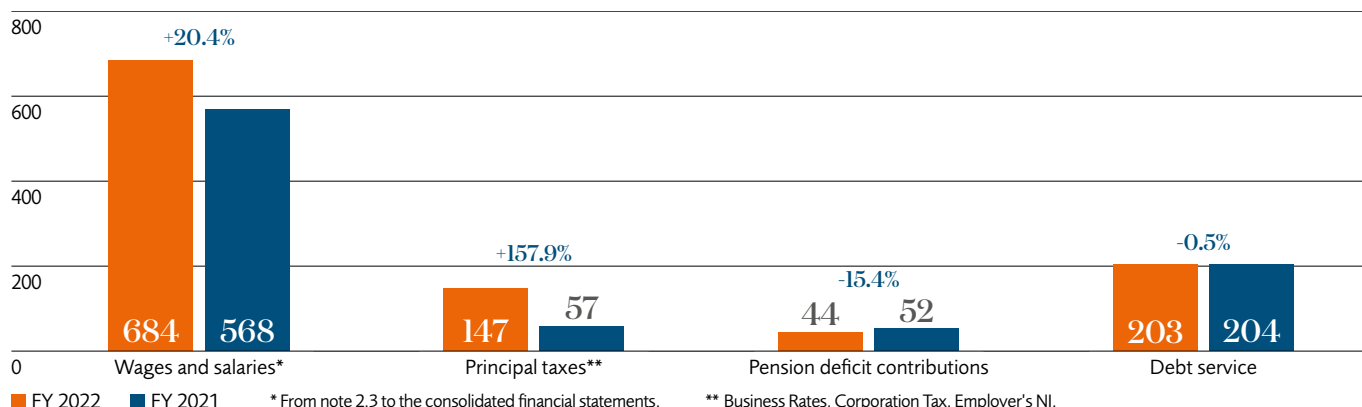
	Chief Executive (£)	P25 (lower quartile) (£)	P50 (median) (£)	P75 (upper quartile) (£)
Salary	545,694	15,161	17,290	17,271
Total pay	806,808	15,161	17,290	17,778

The Chief Executive's base salary increased by 3% from 1 January 2022 but was offset by an equal reduction in pension contributions compared. This compares to an overall increase in employee pay of over 6%. The ratio between the base pay of the Chief Executive and the base pay of employees at each quartile has reduced slightly as a result. On a total pay basis, the ratio of workforce pay to the Chief Executive's total pay has increased, reflecting the higher levels of variable pay from the annual bonus plan. The Committee believes that the ratio is broadly consistent with that of other organisations in hospitality and retail. The overall trend in the median ratio aligns with the movement in the single total figure of remuneration over time.

Hourly-paid employees do not participate in the annual bonus plan, whereas salaried employees do participate in an annual bonus plan (c. 6,000 employees). The median pay ratio is consistent with pay and progression policy for UK employees. More broadly, pay in the hospitality sector is lower than many other sectors and this will be an influencing factor in the overall pay ratio, despite significant increases in pay rates over the last few years.

Relative importance of spend on pay £m

Figures shown for wages and salaries consist of all earnings, including bonus. In FY 2022, £1.5m (0.1%) was paid to Executive and Non-Executive Directors (2021 £1.1m (0.1%)).



Details of service contracts and letters of appointment

Details of the service contracts of Executive Directors are set out below.

Director	Contract start date	Unexpired term	Notice period from Company	Minimum notice period from Director	Compensation on change of control
Phil Urban ^a	27/09/15	Indefinite	12 months	6 months	No
Tim Jones	18/10/10	Indefinite	12 months	6 months	No

a. Phil Urban became Chief Executive and joined the Board on 27 September 2015. His continuous service date started on 5 January 2015, the date on which he joined the Company as Chief Operating Officer.

Non-Executive Directors

Non-Executive Directors, including the Company Chairman, do not have service contracts but serve under letters of appointment which provide that they are initially appointed until the next AGM when they are required to stand for election. In line with the Company's Articles of Association, all Directors, including Non-Executive Directors, will stand for re-election at the 2023 AGM, apart from Amanda Brown who is standing for election. This is also in line with the provisions of the 2018 UK Corporate Governance Code. Non-Executive Directors' appointments are terminable without notice and with no entitlement to compensation. Payment of fees will cease immediately on termination.

Copies of the individual letters of appointment for Non-Executive Directors and the service contracts for Executive Directors are available at the Registered Office of the Company during normal business hours and on our website. Copies will also be available to shareholders to view at the 2023 AGM.

Implementation of remuneration policy in FY 2023**Fixed Pay (Base Pay, Pensions and Benefits)**

Fixed pay for Executive Directors has remained unchanged since 2019 and will not increase in 2023.

The current level of inflation is putting pressure on pay increases. Overall pay increases have been 6.3% over the year with hourly paid frontline employees who are typically the lowest paid employees in the Group, seeing the largest increases. It is anticipated that pay for frontline workers in the coming year will again be at least at the level seen in FY 2022.

With effect from 1 January 2023 Phil Urban's salary will increase to £579,000 (5%) and Tim Jones to £484,500 (5%). Their salaries were last increased in January 2022. In line with our aim to reduce pension allowances for Executive Directors to the average employee contribution, increases in base pay will be entirely offset by an equal reduction in the cash equivalent pension contribution. Therefore, the pension allowance paid to Executive Directors will reduce to 5.6% and we anticipate that alignment will be achieved in FY 2024 in line with the approach we communicated in our remuneration policy.

Annual Bonus

The Committee has determined that the annual bonus scheme for FY 2023 will be the broadly same as that in place for FY 2022, and will be structured as follows:

- The maximum earnings opportunity will remain at 100% of base salary.
- Adjusted Operating Profit^a will continue to account for 70% of the overall opportunity.
- Delivery of a threshold level of financial performance will result in a payment of 7.5% of base salary. This is a small change from the FY 2022 scheme where bonus began to accrue from the threshold level of performance. The Committee feels that this change is appropriate in the context of the target that has been set for FY 2023. The level of payout for delivery of target performance across all elements remains unchanged at 50% of base salary.
- There remains a great deal of uncertainty in relation to the cost headwinds the business may face in the coming year. The Committee has therefore decided that targets will be set for the full year but that initially a quarter one incentive target will be put in place. Achievement of this target would accrue a pro-rata bonus based on the target range set out above.
- At the end of the first quarter the Committee will consider whether it is appropriate to revise the targets set, which may result in quarterly targets being set throughout the year or a revised target being set for a longer period depending on the circumstances and outlook at the time.
- The Committee feels that this approach will ensure that targets remain appropriately stretching and can take into account the volatility that may impact costs in the year and particularly in relation to energy.
- Based on current assumptions, an on-target payout over the full year would require a sales performance well ahead of pre-pandemic levels and that a significant proportion of the anticipated cost headwinds of c. £180m will be offset through initiatives to enhance efficiency and productivity. A maximum payment would therefore represent a very strong performance.

The remaining 30% of the annual bonus plan will be allocated against the business scorecard as follows:

- 15% for Guest Health (reputation.com scores and guest complaints).
- 10% for employee engagement.
- 5% for Food Safety.
- For FY 2023 the guest health measurement will no longer encompass Net Promoter Score ('NPS'). Over time social media scores have become the most relevant measurement of guest satisfaction and the replacement of NPS also reflects the change in the overall Company guest KPI from NPS to reputation.com.
- The non-financial elements are only payable if a threshold level of financial performance is achieved. For FY 2023 this will be unchanged at 97.5% of Operating Profit.
- Targets are not being disclosed on the basis that they are considered commercially sensitive but will be disclosed in next year's report.

Executive Directors are also aware that the Committee may take into account other factors when assessing if any bonus may be paid as part of our established quality of earnings assessment. In particular this assessment will review the overall financial performance of the Group over the year to ensure that any payout resulting from the approach to target setting above is consistent with overall performance across the year.

RSP award FY 2023/25

An RSP award is due to be made in respect of the FY 2023/25 period. The Committee has agreed that the award for Executive Directors will remain at 100% of base pay.

The Committee has reviewed the performance underpin which it will take into account (amongst other factors) when determining its discretion to adjust the number of shares vesting.

It concluded that the three elements of the current underpin remain appropriate and requires the Committee to consider the following:

- if any adjustments have been made to annual bonus outcomes for each of the three years covered by the vesting period for awards under the RSP;
- whether there has been material damage to the reputation of the Company (in such circumstances, responsibility and hence any adjustments to the level of vesting may be allocated collectively or individually to participants); and
- that the business has an appropriate capital structure in place that enables the execution of our strategic priorities.

Share Plan Rules Renewal

The Short Term Deferred Incentive Plan, Sharesave Plan and Share Incentive Plan will be renewed at the 2023 AGM as their 10-year life will be expiring in January 2023. There are no material changes to the rules and the plans will continue to operate as they do currently. Full details will be set out in the AGM notice of meeting accompanying this Annual Report.

Non-Executive Directors' fee review

The Chairman's fee was last increased in January 2015 and Non-Executive Director fees were last increased in January 2019. As detailed in the corporate governance section of this report, the Chairman's fee will increase by 4% to £296,000 per annum and the base fee for Non-Executive Directors will increase by 4% to £55,000 per annum with effect from 1 January 2023. The fee paid to Non-Executive Directors for chairing a Committee, acting as the nominated Director for employee voice, or for the role of Senior Independent Director will also increase by 4% to £13,500 per annum.

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.

Financial Statements

Details the financial performance of the Group in FY 2022 in comparison to its performance in prior years.

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Independent auditor's report to the members of Mitchells & Butlers plc

1. Our opinion is unmodified

We have audited the financial statements of Mitchells & Butlers plc ('the Company') for the 52 week period ended 24 September 2022 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group cash flow statement and the related notes, including the accounting policies in notes 1 to 5.4 of the Group financial statements and notes 1 to 10 of the Company financial statements.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 24 September 2022 and of the Group's profit for the 52 week period then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 25 January 2022. The period of total uninterrupted engagement is for the 1 financial period ended 24 September 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:	£22m
Group financial statements as a whole	0.44% total assets

Coverage	95% Group assets
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Key audit matters

Recurring risks	Going concern
	Valuation of the freehold and long leasehold restaurant and pub estate
	Impairment of right of use assets and short leasehold properties

2. Material uncertainty related to going concern

	<i>The risk</i>	<i>Our response</i>
<p>Going Concern Refer to page 87 (Audit Committee Report), page 121 note 1 (accounting policy and financial disclosures).</p> <p>We draw attention to note 1 to the financial statements which indicates that the maintenance of growth in sales in the face of pressure on consumer spending power in an environment of falling real wages, and the future outlook for cost inflation across the whole of the cost base but most notably in energy prices, food costs and wages and salaries. The outlook for these is highly uncertain and volatile, particularly energy costs in the second half of FY 2023, and will depend on a number of factors including consumer confidence, global political developments and supply chain disruptions and government policy. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Group's and the parent Company's ability to continue as a going concern.</p> <p>Our opinion is not modified in respect of this matter.</p>	<p>Disclosure quality The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and parent Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Group's and Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>Given the extent of the economic uncertainty described by the Directors, there is little judgement involved in the Directors' conclusion that risks and circumstances described in note 1 to the financial statements represent a material uncertainty over the ability of the Group and Company to continue as a going concern for a period of at least a year from the date of approval of the financial statements.</p> <p>However, clear and full disclosure of the facts and the Directors' rationale for the use of the going concern basis of preparation, including that there is a related material uncertainty, is a key financial statement disclosure and so was the focus of our audit in this area. Auditing standards require that to be reported as a key audit matter.</p>	<p>Our procedures included:</p> <p>Assessing transparency:</p> <ul style="list-style-type: none"> We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and, dependencies, and related sensitivities. <p>Our assessment of management's going concern assessment also included:</p> <p>Funding assessment:</p> <ul style="list-style-type: none"> We assessed the forecast cash position, available committed facilities and the Director's assessment of the Group's ability to comply with its covenants during the forecast period, to understand the financial resources available to the Group during the forecast period. <p>Historical comparisons:</p> <ul style="list-style-type: none"> We assessed the ability of the Group to accurately forecast by comparing the most recent year's performance against budget and challenged the assumptions over the going concern period based on historical performance. We also challenged the actual performance in recent years versus base case and downside case to challenge the quantum of risks applied in the forecasts. We considered the consistency of managements' forecasts with other areas of the audit, including the right-of-use asset impairment review and revaluation of freehold and long leasehold properties. <p>Key dependency assessment:</p> <ul style="list-style-type: none"> We evaluated how the model captures events and conditions that may cast significant doubt on the ability to continue as a going concern and evaluated whether key assumptions were within a reasonable range, and assessed the plausible but severe downside scenarios, particularly whether those downside scenarios reflected plausible impacts of higher cost inflation and changes in consumer behaviour on the business. <p>Sensitivity analysis:</p> <ul style="list-style-type: none"> We assessed the downside sensitivities to ensure that these represented severe but plausible scenarios based on our knowledge of the business and sector and we considered the most recent trading results to form a holistic view of the Group. <p>Our sector experience:</p> <ul style="list-style-type: none"> We assessed the forecasts and key assumptions by reference to our knowledge of the business and the general market conditions including the potential risk of management bias. We critically assessed the impact of those market conditions on sales and cost inflation assumptions included within the cashflow forecasts; <p>Evaluating Directors' intent:</p> <ul style="list-style-type: none"> We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise, taking into account the extent to which the Directors can control the timing and outcome of these. <p>Our results We found the going concern disclosure in note 1 with a material uncertainty to be acceptable.</p>

3. Other key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Going concern is a significant key audit matter and is described in section 2 of our report. We summarise below the other key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	<i>The risk</i>	<i>Our response</i>
<p>Valuation of the freehold and long leasehold restaurant and pub estate (£4,036 million; 2021 £4,277 million)</p> <p><i>Refer to page 85 (Audit Committee Report), page 133 note 3.1 (accounting policy and financial disclosures).</i></p>	<p>Subjective estimate The Group holds its freehold and long leasehold property estate at fair value, with a revaluation taking place as at the balance sheet date. We determined that the valuation of the Group's property estate is a major source of estimation uncertainty.</p> <p>The valuation involves the use of subjective assumptions, most notably the fair maintainable trade and applicable trading multiples. Covid-19 introduced unprecedented levels of disruption to business operations and this has reduced the available level of recent trading information used to inform these assumptions.</p> <p>These assumptions are inherently subjective and small changes in the assumptions used in the valuation could have a significant effect on the carrying value in the balance sheet which we consider is a fraud risk.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the freehold and long leasehold restaurant and pub estate has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 3.1) discloses the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <p>Assessing valuation approach:</p> <ul style="list-style-type: none"> We met with the Group's external valuers and management to critically assess the valuation assumptions and methodology used in valuing the properties and the market evidence used by the valuers to support their assumptions. We also obtained an understanding of management's involvement in the valuation process to assess whether appropriate oversight had occurred. <p>Assessing valuer's credentials:</p> <ul style="list-style-type: none"> We critically assessed the independence, professional qualification, competence and experience of the internal and external valuers engaged by the Group. <p>Sensitivity analysis:</p> <ul style="list-style-type: none"> We considered sensitivities to the overall valuation from changes to fair maintainable trade and to valuation multiples. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> We challenged the key assumptions, with the assistance of our own valuation specialists, for a sample of properties by making a comparison to market comparable data. <p>Assessing inputs:</p> <ul style="list-style-type: none"> We vouched observable inputs used for a sample of assets in the valuation to source documentation. <p>Assessing outputs:</p> <ul style="list-style-type: none"> We evaluated and challenged the output of the valuations through the identification of higher risk assets with the assistance of our own valuation specialists; <p>Assessing transparency:</p> <ul style="list-style-type: none"> We critically assessed the adequacy of the Group's disclosures in relation to the valuation of the estate and the sensitivity of changes in key assumptions <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results We found the valuation of the freehold and long leasehold restaurant and pub estate to be acceptable.</p>

	<i>The risk</i>	<i>Our response</i>
<p>Impairment of right-of-use assets and short leasehold properties (£497 million; 2021 £530 million)</p> <p>Refer to page 85 (Audit Committee Report), page 133 note 3.1 (accounting policy and financial disclosures) and note 3.2 page 139.</p>	<p>Subjective estimate The estimated recoverable amount of right-of-use assets and short leasehold properties is subjective due to the inherent uncertainty involved in forecasting and discounting future cashflows at a CGU level.</p> <p>The impact of COVID-19 on recent trading patterns, together with the current levels of cost inflation, increases the degree of estimation uncertainty.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of right of use assets and short leasehold properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we concluded that reasonably possible changes to the value in use would not be expected to result in material impairment.</p>	<p>Our procedures included:</p> <p>Assessing impairment triggers:</p> <ul style="list-style-type: none"> We assessed the appropriateness and completeness of impairment triggers identified; <p>Benchmarking assumptions and historical comparison:</p> <ul style="list-style-type: none"> We assessed and challenged the key assumptions through retrospective review and comparison to industry forecasts and other externally derived data, including available sources for comparable companies. <p>Assessing allocation:</p> <ul style="list-style-type: none"> We evaluated the reasonableness of budget allocations to individual cash generating units (CGUs) through retrospective review and comparison to CGU specific factors <p>Sensitivity analysis:</p> <ul style="list-style-type: none"> We evaluated the appropriateness and likelihood of the sensitivities and their impact on the overall impairment test outcome and assess whether additional sensitivity analysis would have been appropriate. <p>Assessing inputs:</p> <ul style="list-style-type: none"> We vouched observable inputs used for a sample of assets to source documentation. <p>Assessing transparency:</p> <ul style="list-style-type: none"> We critically assessed the adequacy of the Group's disclosures. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results We found the Group's conclusion on the impairment of its right-of-use assets and short leasehold properties to be acceptable.</p>
<p>Recoverability of parent Company's investment in subsidiaries (£1,866 million; 2021 £1,616 million)</p> <p>Refer to page 174 note 5 to the parent Company accounts (accounting policy and financial disclosures).</p>	<p>Low risk high value The carrying amount of the parent Company's investments in subsidiaries represents 74% (2021 70%) of the Company's total assets. Their recoverability is not a high risk of misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.</p>	<p>Our response We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our procedures included:</p> <p>Test of detail:</p> <ul style="list-style-type: none"> We compared the carrying amount of all investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, are in excess of their carrying amount and assess whether those subsidiaries have historically been profit-making. <p>Comparing valuations:</p> <ul style="list-style-type: none"> For the investments where the carrying amount exceeds the net asset value, we compared the carrying amount of the investment to management's assessment of value in use. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> We assessed and challenged the key assumptions in the value in use calculation through comparison to industry forecasts and other externally derived data. We compared the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. <p>Our results We found the Company's conclusion that there is no impairment of its investments in subsidiaries to be acceptable.</p>

4. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £22 million, determined with reference to a benchmark of total assets (of which it represents 0.44%). We used a benchmark of total assets, which we consider to be appropriate given the sector in which the entity operates; the majority of the total asset value is in the pub estate and these assets act as security for the Group's securitised borrowings and will therefore be a focus of users of the accounts.

Materiality for the parent Company financial statements as a whole was set at £11 million, determined with reference to a benchmark of parent Company total assets (of which it represents 0.44%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for the Group was set at 75% of materiality for the consolidated financial statements as a whole, which equates to £16.5 million for the Group and £8.25 million for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

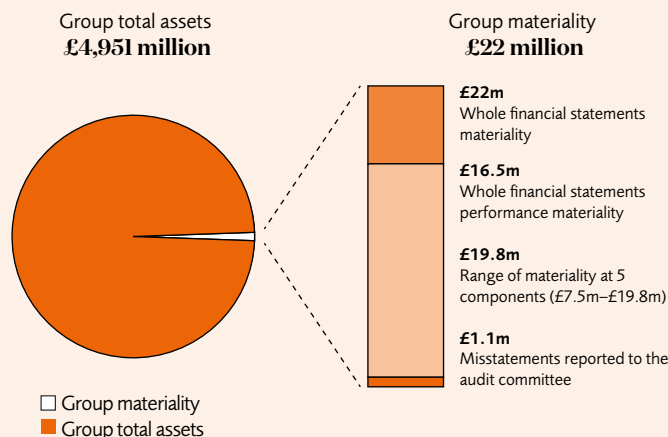
In addition, we applied materiality of £10 million, to Group revenue for which we believe misstatement of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Group.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

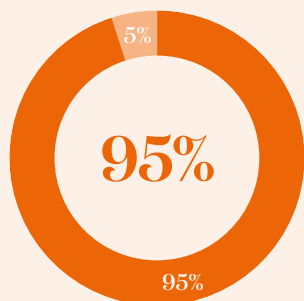
Audits for Group reporting purposes were performed by the Group audit team. The components within the scope of our work accounted for 95% of total Group assets, 94% of total profits and losses that made up Group profit before tax and 89% of total Group revenue.

The audits were all performed to materiality levels set individually for each component and ranged from £7.5 million to £19.8 million.

The audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

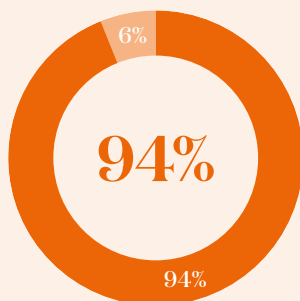


Group total assets



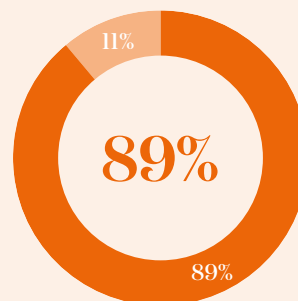
■ Full scope for Group audit purposes 2022 95%
■ Residual components 5%

Total profits and losses that made up Group profit before tax



■ Full scope for Group audit purposes 2022 94%
■ Residual components 6%

Group revenue



■ Full scope for Group audit purposes 2022 89%
■ Residual components 11%

5. The impact of climate change in our audit

In planning our audit, we considered the potential impacts of climate change on the Group's business and its financial statements.

The Group has set out its target to achieve zero greenhouse gas emissions by 2040, for Scope 1, 2 and 3 emissions, zero operation waste to landfill by 2030 and to reduce food waste by 50% by 2030 (from FY 2019 baselines).

However, whilst the Group has set targets to be carbon neutral by 2050, the consequences, in terms of investment, of the gross cost of this transition, how the demand might be impacted by the price increases needed to recover these costs and the longer term changes in customer behaviour are still being assessed, as the Group considers how it will work towards meeting these targets.

As part of our audit we have performed a risk assessment, including making enquiries of management, reading board meeting minutes and applying our knowledge of the Group and sector in which it operates to understand the extent of the potential impact of climate change risk on the Group's financial statements. Taking into account the nature of the business, we have not assessed climate related risk to be significant to our audit this year. There was no impact on our key audit matters.

We also read the Group's disclosure of climate related information in the front half of the annual report and considered consistency with the financial statements and our knowledge gained from our financial statement audit work.

6. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic for at least a year from the date of approval of the financial statements ('the going concern period'). As stated in section 2 of our report, they have also concluded that there is a material uncertainty related to going concern.

An explanation of how we evaluated management's assessment of going concern is set out in section 2 of our report.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting and their identification therein of a material uncertainty over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 52 is materially consistent with the financial statements and our audit knowledge.

7. Fraud and breaches of laws and regulations

– ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the audit committee, internal audit and inspection of policy documentation as to the Group's and Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's/Company's channel for 'whistleblowing', as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee, risk and remuneration committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors
- Using analytical procedures to identify any unusual or unexpected relationships.
- Considering the existence of any significant unusual transactions.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of the estate and impairment assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because Group revenue is generated predominantly through the operation of pubs. This revenue contains no significant judgements and is comprised of a large number of small, simple transactions that are received in cash or credit card receivables at the point of sale. Therefore there is limited opportunity for management to manipulate or to fraudulently post the volume of transactions that would be required to have a material impact on revenue.

We also identified a fraud risk related to the valuation of the freehold and long leasehold pub and restaurant estate. Further detail in respect of this area is set out in the key audit matter disclosures in section 3 of this report.

We performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management/those posted to unusual accounts related to revenue, cash and borrowings, operating costs/other expenses, seldom used accounts and those that move costs out of EBITDA.
- Evaluated the business purpose of significant unusual transactions.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

7. Fraud and breaches of laws and regulations – ability to detect continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such an effect: licensing regulations, responsible drinking regulations, planning and building legislation, health and safety, data protection laws, anti-bribery, employment law, recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

8. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial 52 week period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, other than the material uncertainty related to going concern referred to above, we have nothing further material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement page 52 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Risks and uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 52 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

9. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

10. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 72, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

11. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Haydn-Jones

(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

6 December 2022

Group income statement

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks			2021 52 weeks		
		Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m	Before separately disclosed items £m	Separately disclosed items ^a £m	Total £m
Revenue	2.1, 2.3	2,208	–	2,208	1,065	–	1,065
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(1,836)	–	(1,836)	(898)	13	(885)
Share in associates results	3.6	1	–	1	1	–	1
Net profit arising on property disposals	2.2, 2.3	–	1	1	–	1	1
EBITDA^b before movements in the valuation of the property portfolio		373	1	374	168	14	182
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	(133)	(117)	(250)	(139)	38	(101)
Operating profit/(loss)		240	(116)	124	29	52	81
Finance costs	4.2	(115)	–	(115)	(122)	–	(122)
Finance income	4.2	1	–	1	2	–	2
Net pensions finance charge	4.2, 4.5	(2)	–	(2)	(3)	–	(3)
Profit/(loss) before tax		124	(116)	8	(94)	52	(42)
Tax (charge)/credit	2.2, 2.4	(17)	22	5	17	(40)	(23)
Profit/(loss) for the period		107	(94)	13	(77)	12	(65)
Earnings/(loss) per ordinary share							
– Basic	2.5	18.0p		2.2p	(13.6)p		(11.5)p
– Diluted	2.5	18.0p		2.2p	(13.6)p		(11.5)p

a. Separately disclosed items are explained and analysed in note 2.2.

b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio. 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.

The notes on pages 121 to 170 form an integral part of these consolidated financial statements.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) for the period		13	(65)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised (loss)/gain on revaluation of the property portfolio	3.1	(187)	150
Remeasurement of pension liability	4.5	41	9
Tax relating to items not reclassified	2.4	32	(97)
		(114)	62
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		2	(1)
Cash flow hedges:			
– Gains arising during the period	4.3	180	32
– Reclassification adjustments for items included in profit or loss	4.3	1	56
Tax relating to items that may be reclassified	2.4	(45)	(4)
		138	83
Other comprehensive income after tax		24	145
Total comprehensive income for the period		37	80

The notes on pages 121 to 170 form an integral part of these consolidated financial statements.

Group balance sheet

24 September 2022

	Notes	2022 £m	2021 £m
Assets			
Goodwill and other intangible assets	3.5	14	13
Property, plant and equipment	3.1	4,194	4,442
Right-of-use assets	3.2	339	379
Interests in associates	3.6	6	5
Finance lease receivables	3.2	12	14
Deferred tax asset	2.4	4	4
Derivative financial instruments	4.3	56	29
Total non-current assets		4,625	4,886
Inventories	3.3	23	19
Trade and other receivables	3.3	90	48
Current tax asset		1	3
Finance lease receivables	3.2	1	1
Derivative financial instruments	4.3	4	–
Cash and cash equivalents	4.4	207	252
Total current assets		326	323
Total assets		4,951	5,209
Liabilities			
Pension liabilities	4.5	(42)	(51)
Trade and other payables	3.3	(408)	(333)
Current tax liabilities		–	(2)
Borrowings	4.1	(130)	(134)
Lease liabilities	3.2	(53)	(50)
Derivative financial instruments	4.3	–	(37)
Total current liabilities		(633)	(607)
Pension liabilities	4.5	(22)	(92)
Borrowings	4.1	(1,334)	(1,416)
Lease liabilities	3.2	(428)	(463)
Derivative financial instruments	4.3	(28)	(172)
Deferred tax liabilities	2.4	(354)	(346)
Provisions	3.4	(9)	(9)
Total non-current liabilities		(2,175)	(2,498)
Total liabilities		(2,808)	(3,105)
Net assets		2,143	2,104
Equity			
Called up share capital	4.7	51	51
Share premium account	4.7	357	356
Capital redemption reserve	4.7	3	3
Revaluation reserve	4.7	1,009	1,150
Own shares held	4.7	(5)	(3)
Hedging reserve	4.7	(20)	(156)
Translation reserve	4.7	15	13
Retained earnings		733	690
Total equity		2,143	2,104

The notes on pages 121 to 170 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 6 December 2022.

They were signed on its behalf by:

Tim Jones
Chief Financial Officer

Group statement of changes in equity

For the 52 weeks ended 24 September 2022

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 26 September 2020	37	28	3	1,117	(3)	(240)	14	722	1,678
Loss for the period	–	–	–	–	–	–	–	(65)	(65)
Other comprehensive income/(expense)	–	–	–	33	–	84	(1)	29	145
Total comprehensive income/(expense)	–	–	–	33	–	84	(1)	(36)	80
Share capital issued	14	328	–	–	–	–	–	–	342
Purchase of own shares	–	–	–	–	(1)	–	–	–	(1)
Release of own shares	–	–	–	–	1	–	–	(1)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	3	3
Tax credit on share-based payments	–	–	–	–	–	–	–	2	2
At 25 September 2021	51	356	3	1,150	(3)	(156)	13	690	2,104
Profit for the period	–	–	–	–	–	–	–	13	13
Other comprehensive (expense)/income	–	–	–	(141)	–	136	2	27	24
Total comprehensive (expense)/income	–	–	–	(141)	–	136	2	40	37
Share capital issued	–	1	–	–	–	–	–	–	1
Purchase of own shares	–	–	–	–	(2)	–	–	–	(2)
Credit in respect of share-based payments	–	–	–	–	–	–	–	4	4
Tax charge on share-based payments	–	–	–	–	–	–	–	(1)	(1)
At 24 September 2022	51	357	3	1,009	(5)	(20)	15	733	2,143

The notes on pages 121 to 170 form an integral part of these consolidated financial statements.

Group cash flow statement

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks £m	2021 52 weeks £m
Cash flow from operations			
Operating profit		124	81
Add back/(deduct):			
Movement in the valuation of the property portfolio	2.2	117	(38)
Net profit arising on property disposals	2.2	(1)	(1)
Depreciation of property, plant and equipment	2.3	93	98
Amortisation of intangibles	2.3	4	4
Depreciation of right-of-use assets	2.3	36	37
Loss on disposal of fixtures, fittings and equipment		–	2
Cost charged in respect of share-based payments	4.6	4	3
Past service cost in relation to the defined benefit pension obligation	4.5	–	3
Administrative pension costs	4.5	4	5
Share of associates results	3.6	(1)	(1)
Impairment of finance lease receivables	3.2	–	2
Operating cash flow before movements in working capital and additional pension contributions		380	195
(Increase)/decrease in inventories		(3)	3
Increase in trade and other receivables		(19)	(7)
Increase in trade and other payables		42	10
(Decrease)/increase in provisions		(1)	1
Additional pension contributions	4.5	(44)	(52)
Cash flow from operations		355	150
Interest payments ^a		(67)	(65)
Interest payments on interest rate swaps ^a		(33)	(40)
Interest receipts on cross currency swap ^a		1	1
Interest payments on cross currency swap ^a		(1)	(1)
Other interest paid – lease liabilities	4.4	(16)	(21)
Borrowing facility fees paid		–	(1)
Interest received		1	1
Tax (paid)/received		(2)	1
Net cash from operating activities		238	25
Investing activities			
Purchases of property, plant and equipment		(117)	(29)
Purchases of intangible assets		(5)	(4)
Proceeds from sale of property, plant and equipment		1	1
Finance lease principal repayments received		3	–
Net cash used in investing activities		(118)	(32)
Financing activities			
Issue of ordinary share capital	4.7	1	342
Purchase of own shares	4.7	(2)	(1)
Repayment of principal in respect of securitised debt ^b	4.4	(115)	(107)
Principal receipts on currency swap ^b	4.4	20	17
Principal payments on currency swap ^b	4.4	(15)	(14)
Repayment of liquidity facility	4.4	–	(9)
Repayment of term loan	4.4	–	(100)
Repayment of unsecured revolving credit facilities	4.4	–	(10)
Cash payments for the principal portion of lease liabilities	4.4	(48)	(41)
Net cash (used in)/from financing activities		(159)	77
Net (decrease)/increase in cash and cash equivalents		(39)	70
Cash and cash equivalents at the beginning of the period	4.4	227	158
Foreign exchange movements		2	(1)
Cash and cash equivalents at the end of the period	4.4	190	227

a. Interest paid is split to show gross payments on the interest rate and cross currency swaps.

b. Principal repayments on securitised debt are split to show repayments relating to the cross currency swap.

The notes on pages 121 to 170 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Section 1 – Basis of preparation

General information

Mitchells & Butlers plc (the Company) is a public limited company limited by shares and is registered in England and Wales. The Company's shares are listed on the London Stock Exchange. The address of the Company's registered office is shown on page 180.

The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Strategic Report on pages 10 to 58.

The Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted within the UK and in accordance with the Companies Act 2006.

The Group's accounting reference date is 30 September. The Group draws up its consolidated financial statements to the Saturday directly before or following the accounting reference date, as permitted by section 390 (3) of the Companies Act 2006. The period ended 24 September 2022 and the comparative period ended 25 September 2021 both include 52 trading weeks.

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

The Group's accounting policies have been applied consistently.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Mitchells & Butlers plc (the Company) and entities controlled by the Company (its subsidiaries).

Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at the previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of the subsidiaries acquired or disposed of during the period are included in the Group income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same financial reporting period as the Company. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 10 to 58. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Financial Review on pages 55 to 58.

Note 4.3 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. As highlighted in note 4.1 to the consolidated financial statements, the Group's financing is based upon securitised debt and unsecured borrowing facilities.

The Directors have adopted the going concern basis in preparing these financial statements after assessing the impact of identified principal risks and their possible adverse impact on financial performance, specifically revenue and cash flows.

The combined impact on the hospitality sector of Covid-19, Brexit and more recently high and persistent cost inflation, initially in energy, wages and food costs, but now evident throughout most of the Group's cost base, has resulted in reduced levels of sales, profits and operating cash flow since March 2020. These factors cast a high degree of uncertainty as to the future financial performance and cash flows of the Group and have been considered by the Directors in assessing the ability of the Group to continue as a going concern.

The Group's primary source of borrowings is through ten tranches of fully amortising loan notes with a gross debt value of £1.4bn as at the end of the period. These are secured against the majority of the Group's property and its future income streams. The principal repayment period varies by class of note with maturity dates ranging from 2023 to 2036, with £116m amortisation payments falling due within the going concern period.

The Group also has available a committed unsecured credit facility of £150m which has a maturity date in February 2024. At the balance sheet date there were no drawings under these facilities.

Last year the Group launched an Open Offer to shareholders resulting in an inflow of £351m of additional funds, gross of transaction costs, on 12 March 2021. This significantly enhanced the financial position of the Group. Further, and contingent on this equity raise, new debt arrangements were secured by agreement with the Group's main stakeholders. In summary:

- The establishment of the £150m 3 year unsecured revolving credit facility due to expire in February 2024, referred to above.
- Agreement to a number of covenant waivers and amendments with Ambac Assurance UK Ltd, as controlling creditor, and HSBC Trustee (CI), as trustee, running until January 2023 to provide flexibility and stability to manage the Group's secured debt financing structure.

Within the secured debt financing structure there are two main covenants: the level of net worth (being the net asset value of the securitisation group) and, FCF to DSCR. As at 24 September 2022 there was substantial headroom on the net worth covenant. FCF to DSCR represents the multiple of Free cash Flow (being EBITDA less tax and required capital maintenance expenditure) generated by sites within the structure to the cost of debt service (being the repayment of principal, net interest charges and associated fees). This is tested quarterly on both a trailing two quarter and a four quarter basis. These tests were waived until January 2022 (two quarter) and April 2022 (four quarter) and then set as transitioning to their full level of a minimum of 1.1 times by January 2023.

*Section 1 – Basis of preparation continued***Going concern continued**

Unsecured facilities were initially measured only against a liquidity covenant, against which there was substantial headroom, until the end of Q3 FY 2022. Following this date further covenants were introduced relating to the ratio of EBITDAR to rent plus interest (at a minimum of 1.5 times) and net debt to EBITDA (to be no more than 3.0 times) based on the performance of the unsecured estate, both tested on a half-yearly basis.

In the year ahead the main uncertainties are considered to be the maintenance of growth in sales in the face of pressure on consumer spending power in an environment of falling real wages, and the future outlook for cost inflation across the whole of the cost base but most notably in energy prices, food costs and wages and salaries. The outlook for these is highly uncertain and volatile, particularly energy costs in the second half of FY 2023, and will depend on a number of factors including consumer confidence, global political developments and supply chain disruptions and government policy.

The Directors have reviewed the financing arrangements against a forward trading forecast in which they have considered the Group's current financial position. This forecast assumes further growth in sales beyond pre-pandemic levels and on the prior year slightly below the level generated in recent months. Costs are also assumed to continue to increase in line with recent experience blending at an expected increase of c10% across the cost base of the business of approximately £1.8bn. Under this base case the Group is able to stay within revised committed facility financial covenants, albeit with limited headroom, and maintains sufficient liquidity.

The Directors have also considered a severe but plausible downside scenario covering adverse movements against the base forward forecast in both sales and cost inflation in which some, but limited, mitigation activity is taken including lower capital expenditure on site remodel activity and a flex down of labour costs in line with reduced sales. In this scenario sales are assumed to remain in growth but at a level further below current run rates, and the impact of unmitigated cost inflation is higher particularly in the areas of food, labour and energy aggregating to 12% of the cost base. In this downside scenario, whilst the Group retains sufficient liquidity throughout the period based on existing facilities, covenants would be breached in the fourth quarter of the year in both secured and unsecured facilities. Under such a scenario the Directors believe that, on the basis of previous waivers secured, the strong asset base and longer term trading prospects, waivers should be forthcoming from main stakeholders. However this is not within the Group's control and as a result the Directors cannot conclude that the possibility of an un-waived breach of covenant is remote.

After due consideration of these factors, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the circumstances outlined above, in particular the uncertainty concerning sales and cost inflation with the resulting possibility of an un-waived covenant breach, and ultimately the need to renew unsecured facilities on or before February 2024, indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt over the Group's and the Company's ability to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include any adjustments that would arise from the basis of preparation being inappropriate.

A review of longer-term viability is provided on pages 52 and 53 which assesses the Group's ability to continue in operation and to meet its liabilities as they fall due over a longer, three year period.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the relevant rates of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Group income statement. Non-monetary assets and liabilities are measured at cost using the exchange rate on the date of the initial transaction.

The consolidated financial statements are presented in pounds sterling (rounded to the nearest million), being the functional currency of the primary economic environment in which the parent and most subsidiaries operate. On consolidation, the assets and liabilities of the Group's overseas operations are translated into sterling at the relevant rates of exchange ruling at the balance sheet date. The results of overseas operations are translated into sterling at average rates of exchange for the period. Exchange differences arising from the translation of the results and the retranslation of opening net assets denominated in foreign currencies are taken directly to the Group's translation reserve. When an overseas operation is sold, such exchange differences are recognised in the Group income statement as part of the gain or loss on sale.

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.18 (2021 £1 = €1.15), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2021 £1 = €1.17) and £1 = \$1.09 (2021 £1 = \$1.37) respectively.

New and amended IFRS Standards that are effective for the current period

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these consolidated financial statements for the first time with the following impact.

Accounting standard	Effective date
Interest Rate Benchmark Reform – Phase 2	The Group has adopted the amendments to IFRS 9, included in Phase 2 of the Interest Rate Benchmark Reform, in the current period, which address issues that might affect financial reporting during the reform of an interest rate benchmark. This includes the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.
<i>(Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts, IFRS 16 Leases)</i>	A number of the Group’s financial instruments had LIBOR as their interest reference rate at the start of the period. During the period, the Group completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap providers (using amended reference rates consistent with those agreed under the bonds). All sterling based facilities and agreements referencing sterling LIBOR transitioned in the period and now reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1 January 2022. The facilities currently referencing US dollar LIBOR will transition to SOFR plus 26.161 basis points for periods commencing on or after 1 July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis in the prior period, so did not require any further amendment. As part of the transition, all of the Group’s hedge relationships have been reviewed and these continue to be highly effective. Hedge documentation has been updated in accordance with the reliefs permitted in the amendments to IFRS 9, designating the new interest reference rate in both the hedged item and the hedging instrument. As a result of the transition, there has been no impact on the amounts recognised in the income statement or statement of other comprehensive income.

The Directors do not expect that the adoption of the standard listed above will have a material impact on the consolidated financial statements in future periods.

New and revised IFRS Standards in issue but not yet effective

The IASB and IFRIC have issued the following standards and interpretations which could impact the Group, with an effective date for financial periods beginning on or after the dates disclosed below:

Accounting standard	Effective date
<i>Amendments to IAS 1 and IFRS Practice Statement 2 (Disclosure of Accounting Policies)</i>	1 January 2023
<i>Amendments to IAS 1 (Classification of Liabilities as Current or Non-current)</i>	1 January 2023
<i>Amendments to IAS 8 (Definition of Accounting Estimates)</i>	1 January 2023
<i>Amendments to IAS 12 (Deferred Tax related to Assets and Liabilities arising from a Single Transaction)</i>	1 January 2023
<i>IFRS 17 Insurance Contracts</i>	1 January 2023
<i>Amendments to IFRS 3 (Reference to the Conceptual Framework)</i>	1 January 2022
<i>Amendments to IAS 16 (PPE – proceeds before intended use)</i>	1 January 2022
<i>Amendments to IAS 37 (Onerous Contracts – cost of fulfilling a contract)</i>	1 January 2022
<i>Annual improvements to IFRS standards 2018-2020 cycle (Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture)</i>	1 January 2022

The Directors do not expect that the adoption of the standards listed above will have a material impact on the consolidated financial statements in future periods.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, income and expense.

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Judgements and estimates for the period remain largely unchanged from the prior period.

Significant accounting estimates:

The significant accounting estimates with a significant risk of a material change to the carrying value of assets and liabilities within the next year in terms of IAS 1 Presentation of Financial Statements, are:

- Going concern assessment – in the current and prior period, there has been significant judgement around the going concern assessment, including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review on pages 121 and 122.
- Fair value of freehold and long leasehold properties – see note 3.1

Other areas of judgement are described in each section listed below:

- Determination of items that are separately disclosed – see note 2.2
- Impairment review of short leasehold properties – see note 3.1
- Impairment review of right-of-use assets – see note 3.2
- Selection of appropriate assumptions for calculation of the defined benefit pension liabilities – see note 4.5

Other sources of estimation uncertainty are described in:

- Impairment review of short leasehold properties – see note 3.1
- Impairment review of right-of-use assets – see note 3.2
- Actuarial valuations of the defined benefit pension liabilities – see note 4.5

Section 2 – Results for the period

2.1 Segmental analysis

Accounting policies

Operating segments

IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include: expected future financial performance; operating and competitive risks; and return on invested capital. As such, the Group reports the business as one reportable business segment.

The CODM uses EBITDA and operating profit before interest and separately disclosed items as the key measures of the Group's results on an aggregated basis.

Geographical segments

Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

Geographical segments

	UK		Germany		Total	
	2022 52 weeks £m	2021 52 weeks £m	2022 52 weeks £m	2021 52 weeks £m	2022 52 weeks £m	2021 52 weeks £m
Revenue – sales to third parties	2,117	1,009	91	56	2,208	1,065
Segment non-current assets ^a	4,524	4,817	41	36	4,565	4,853

a. Includes balances relating to intangibles, property, plant and equipment, right-of-use assets, investments in associates and finance lease receivables.

2.2 Separately disclosed items

Accounting policy

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. Adjusted profit measures are presented excluding separately disclosed items as we believe this provides both management, investors and other stakeholders with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans.

Judgement is used to determine those items which should be separately disclosed. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Separately disclosed items are those which are separately identified by virtue of their size or incidence.

Accounting judgements

Judgement is used to determine those items which should be separately disclosed to allow an understanding of the adjusted trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Separately disclosed items are identified as follows:

- Past service cost in relation to the defined benefit pension obligation as a result of the High Court ruling on guaranteed minimum pensions (GMPs) equalisations. This has been disclosed separately as it is not considered part of the adjusted trade performance of the Group and would prevent comparability between periods of the Group's trading if not separately disclosed.
- Costs directly associated with the Government enforced closure of pubs as result of the Covid-19 pandemic. These costs are disclosed separately as they are not considered to be part of normal trading activities.
- A refund in relation to the settlement of a long-standing claim with HMRC regards gaming duty is separately disclosed due to its size.
- Profit/(loss) arising on property disposals – property disposals are disclosed separately as they are not considered to be part of adjusted trade performance and there is volatility in the size of the profit/(loss) in each accounting period.
- Movement in the valuation of the property portfolio – this is disclosed separately, due to the size and volatility of the movement in property valuation each period, which can be partly driven by movements in the property market and discount rate where impairment reviews are completed. This movement is also not considered to be part of the adjusted trade performance of the Group and would prevent comparability between periods of the Group's trading performance if not separately disclosed.
- Tax rate change – the change in tax rate is not part of normal trading activity and due to the size in any given period, this is disclosed separately.

The items identified in the current period are as follows:

	Notes	2022 52 weeks £m	2021 52 weeks £m
Separately disclosed items			
Past service cost in relation to the defined benefit obligation	a	–	(3)
Costs directly associated with Covid-19 and the enforced closure of pubs	b	–	(4)
Gaming machine settlement	c	–	20
Total separately disclosed items recognised within operating costs		–	13
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio:			
– (Impairment charge)/impairment reversal arising from the revaluation of freehold and long leasehold properties	d	(86)	51
– Impairment of freehold and long leasehold tenant's fixtures and fittings	e	–	(3)
– Impairment of short leasehold and unlicensed properties	f	(9)	(2)
– Impairment of right-of-use assets	g	(22)	(8)
Net movement in the valuation of the property portfolio		(117)	38
Total separately disclosed items before tax			
		(116)	52
Tax credit/(charge) relating to above items		22	(11)
Tax charge relating to change in tax rate	h	–	(29)
		22	(40)
Total separately disclosed items after tax			
		(94)	12

- On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments since 17 May 1990 to check if any additional value is due as a result of guaranteed minimum pensions (GMPs) equalisation. This latest judgement followed on from the ruling regarding GMPs on 26 October 2018 and requires that schemes make a top-up payment to any member who exercised their statutory right to transfer benefits to an alternative scheme. The top-up payment should be the shortfall between the original transfer payments and what would have been paid if benefits had been equalised at the time, with interest in line with bank base rate plus 1% each year. The past service cost recognised in the prior period was an estimate of the impact to the Group's schemes as a result of this ruling.
- Costs directly associated with the Covid-19 pandemic primarily relate to the disposal of stock items at site and within distribution depots that are beyond usable dates as a result of the Government enforced closure of pubs during periods of local and national lockdown. These costs are not considered to be part of normal trading activity.
- In the prior period, a decision of a First-Tier tribunal in the case of the Rank Group Plc against HMRC, for the period post-2005, was given in favour of the taxpayers, with HMRC subsequently confirming it will not appeal against the decision and will now pay valid claims. As a result, the Group resubmitted a claim to HMRC covering the period from 2005 to 2012 for VAT on gaming machine income. An estimate of the amount receivable, including interest, of £20m was recognised in the prior period.
- The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 3.1 for further details.
- Impairment of freehold and long leasehold tenant's fixtures and fittings where their carrying values exceed their recoverable amounts. See note 3.1 for further details.
- Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amounts. See note 3.1 for further details.
- Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 3.2 for further details.
- A deferred tax charge was recognised in the prior period following the substantive enactment of legislation which increased the UK standard rate of corporation tax from 19% to 25% from 1 April 2023.

2.3 Revenue and operating costs

Accounting policies

Revenue recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenue – food and drink

The majority of revenue comprises food and drinks sold in the Group's outlets. Revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the outlet or on ordering through a delivery partner. Payment of the transaction price is due immediately at the point the customer makes a purchase at the outlet, or on agreed terms where purchases are made through third-party delivery partners. Revenue excludes sales-based taxes, coupons and discounts.

Revenue – services

Revenue for services mainly represents income from gaming machines, hotel accommodation and rent receivable from unlicensed and leased operations. Revenue for gaming machines and hotel accommodation is recognised at the point the service is provided and excludes sales-based taxes and discounts.

Rental income is received from operating leases where the Group acts as lessor for a number of unlicensed and leased operations. Income from these leases is recognised on a straight-line basis over the term of the lease.

Operating profit

Operating profit is stated after charging separately disclosed items but before investment income and finance costs.

Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in other receivables.

Section 2 – Results for the period *continued***2.3 Revenue and operating costs** *continued***Accounting policies** *continued***Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

Local Authority grants

Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent enforced closure of the business, the Mitchells & Butlers Group (MAB), under the Temporary Framework for State Aid for Covid-19 Responses (TF), has received a number of different areas of support from both local and central Government in the UK and also Germany. During the prior period, the Group applied for various Local Authority grants as a result of both local and national restrictions that required pubs and restaurants to close. Under these schemes, businesses in the retail, hospitality and leisure sectors in England and Germany were entitled to one-off cash grants for each business impacted. The maximum amount the Group was able to claim was £10.9m as a result of the State Aid cap. However, following the EU Court ruling on State Aid aggregation, it has now become clear that aid provided to a Group via different countries does not require aggregation for the purposes of the State Aid cap provided there is sufficient autonomy between subsidiaries operating in different countries. As a result, the Group has sufficient headroom to recognise further support, albeit subject to the individual caps applicable in both the UK and Germany. This has resulted in the recognition of an additional £2m of income in the current period.

Following the outbreak of the Omicron variant of Covid-19 in the UK in November 2021, the Government introduced some further grants to help support businesses in the leisure and hospitality sectors. Under this scheme, the maximum amount the Group was able to claim was £1.3m.

German Government grants

During the prior period, the Group was entitled to receive Government assistance in Germany as a result of Covid-19 in relation to the pubs and restaurants that are operated there. Assistance was received in relation to staff wages and salaries under Kurzarbeit. In addition the German Government provided grants to assist with loss of profits during enforced closure periods under the November 2020 Support and December 2020 Support schemes, as well as the Fixed Cost Bridging Aid scheme. These grants all fell outside of the Temporary Framework and were therefore excluded from the State Aid maximum rules. Following the impact of the Omicron variant in December 2021, further grant claims have been made in the current period for costs incurred during periods of significantly lower sales under an extension of the Bridging Aid scheme.

Business rates

Businesses in the retail, hospitality and leisure sectors in England, Scotland and Wales were granted 100% business rates relief for the 2020/21 rates year, covering the period from 1 April 2020 to 31 March 2021. An additional three months of 100% business rates relief was granted to cover 1 April 2021 to 30 June 2021. Following this, in England, business rates were discounted by two-thirds from 1 July 2021 until 31 March 2022, subject to a £2m cap. In Scotland and Wales, there was an extension of 100% rates relief for hospitality businesses until 31 March 2022.

Apprenticeship incentives

The Group is entitled to claim £1,000 for each apprentice employed, where they are aged 16 to 18, or under 25 and meet certain other criteria.

As part of its response to the Covid-19 pandemic, the UK Government introduced a scheme to enable an employer to receive up to an additional £3,000 per apprentice, where the apprentice commenced employment between 1 August 2020 and 31 January 2022. The payment is phased with amounts due in equal instalments at 90 days and 365 days after employment commenced and is recognised on receipt of cash.

Coronavirus Job Retention Scheme (CJRS)

Under this scheme, HMRC reimbursed up to 80% of the wages of certain employees who were furloughed. The scheme was designed to compensate for staff costs, so amounts received were recognised in the income statement over the same period as the costs to which they relate. In the income statement, operating costs are shown net of grant income received. The scheme commenced on 20 March 2020 and continued until 30 September 2021. A similar scheme operated in Germany (Kurzarbeit).

Government grants

The impact of grants received on the income statement is as follows:

Government grant scheme	Income statement line impact	2022 52 weeks £m	2021 52 weeks £m
Local Authority Grants (UK and Germany)	Revenue – other	3	11
Grants for loss of profits in Germany	Revenue – other	1	14
Apprenticeship incentives	Revenue – other	1	–
Coronavirus Job Retention Scheme	Operating costs before separately disclosed items	–	210
Government assistance for wages and salaries in Germany (Kuzarbeit)	Operating costs before separately disclosed items	–	9
Total Government grants received		5	244

In addition to the grants received above, the impact in the current period of business rates relief received, across all sites within the UK, is an estimated saving of £5m (2021 £75m).

The Group has 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 the current period is £43m (2021 £81m).

Revenue

Revenue is analysed as follows:

	2022 52 weeks £m	2021 52 weeks £m
Food	1,166	592
Drink	957	414
Services	80	34
Other – Local Authority grants (UK and Germany)	3	11
Other – German Government grants for loss of profits	1	14
Other – Apprenticeship incentives	1	–
	2,208	1,065

Revenue from services includes rent receivable from unlicensed properties and leased operations of £9m (2021 £6m).

Operating costs

Operating costs are analysed as follows:

	2022 52 weeks £m	2021 52 weeks £m
Raw materials and food and drink consumables recognised as an expense ^a	556	241
Changes in inventory of finished goods and work in progress	(3)	3
Employee costs	758	403
Hire of plant and machinery	21	9
Property operating lease costs ^b	9	7
Utility costs	152	56
Business rates	91	20
Other pub costs	207	115
Other central costs	45	44
Operating costs before depreciation, amortisation and separately disclosed items	1,836	898
Other separately disclosed items (note 2.2)	–	(13)
	1,836	885
Net profit arising on property disposals	(1)	(1)
Depreciation of property, plant and equipment (note 3.1)	93	98
Depreciation of right-of-use assets (note 3.2)	36	37
Amortisation of intangible assets (note 3.5)	4	4
Net movement in the valuation of the property portfolio (note 2.2)	117	(38)
Depreciation, amortisation and movements in the valuation of the property portfolio	250	101
Total operating costs	2,085	985

a. Supplier incentives are included as a reduction to the raw materials and consumables expense. These are not disclosed separately as the value is immaterial.

b. Property operating lease costs include service charge, insurance and turnover rents.

Section 2 – Results for the period continued

2.3 Revenue and operating costs continued

Employee costs

	2022 52 weeks £m	2021 52 weeks £m
Wages and salaries	684	568
Share-based payments (note 4.6)	4	3
Social security costs	54	38
Pensions (note 4.5)	16	13
Employee costs before Government grants	758	622
UK Government grant ^a	–	(210)
German Government grant ^b	–	(9)
Total employee costs	758	403

a. In the prior period, a Government grant was received in relation to the Coronavirus Job Retention Scheme, to contribute towards the cost of employee wages and salaries, social security costs and pensions. This was introduced by the UK Government in response to the Covid-19 pandemic. In the UK, the scheme commenced on 20 March 2020 and continued until 30 September 2021.

b. In the prior period, a grant was received in relation to employee wages and salaries from the German Government under Kuzarbeit, as described above.

The 4-weekly average number of employees including part-time employees was 44,335 retail employees (2021 38,852) and 1,073 support employees (2021 1,001).

Information regarding key management personnel is included in note 5.1. Detailed information regarding Directors' emoluments, pensions, long-term incentive scheme entitlements and their interests in share options is given in the Report on Directors' remuneration on pages 89 to 106.

Auditor remuneration

	2022 52 weeks £m	2021 52 weeks £m
Fees payable to the Group's auditor for the:		
– audit of the consolidated financial statements	0.2	0.2
– audit of the Company's subsidiaries' financial statements	0.5	0.5
Total audit fees^a	0.7	0.7
Other fees to auditor:		
– audit-related assurance services	–	–
– other non-audit services ^b	–	0.6
Total non-audit fees	–	0.6
Total fees	0.7	1.3

KPMG LLP were appointed as external auditor in the current period. 2021 fees were payable to the previous external auditor, Deloitte LLP.

a. Auditor's remuneration of £0.6m (2021 £0.6m) was paid in the UK and £0.1m (2021 £0.1m) was paid in Germany.

b. During the prior period, non-audit fees of £0.6m were incurred in relation to the Open Offer completed during March 2021. As outlined in the Audit Committee policy on page 88 the external auditor should not provide non-audit services in any one year that exceed 70% of the average audit fee paid to the audit firm in the previous three years. In the case of services provided in relation to the Open Offer, after careful consideration of their independence and professional guidance, the Audit Committee agreed that it was appropriate for Deloitte to be appointed on a separate engagement to conduct the working capital review in relation to the Open Offer.

2.4 Taxation

Accounting policies

The income tax (charge)/credit represents both the income tax payable, based on profits/(losses) for the period, and deferred tax and is calculated using tax rates enacted or substantively enacted at the balance sheet date. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are not taxable. Income tax is recognised in the income statement except when it relates to items that are charged or credited in other comprehensive income or directly in equity, in which case the income tax is also charged or credited in other comprehensive income or directly in equity.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profits and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset realised based on tax laws and rates that have been substantively enacted at the balance sheet date. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

Taxation – Group income statement

	2022 52 weeks £m	2021 52 weeks £m
Current tax:		
– Corporation tax	(3)	(2)
– Amounts over provided in prior periods	1	4
Total current tax (charge)/credit	(2)	2
Deferred tax:		
– Origination and reversal of temporary differences	3	8
– Effect of changes in UK tax rate	4	(29)
– Adjustments in respect of prior periods	–	(4)
Total deferred tax credit/(charge)	7	(25)
Total tax credit/(charge) in the Group income statement	5	(23)
Further analysed as tax relating to:		
Profit/(loss) before separately disclosed items	(17)	17
Separately disclosed items	22	(40)
	5	(23)

The standard rate of corporation tax applied to the reported profit/(loss) is 19.0% (2021 19.0%).

Section 2 – Results for the period continued

2.4 Taxation continued

The tax credit (2021 charge) in the Group income statement for the period is lower than (2021 lower) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) before tax	8	(42)
Taxation (charge)/credit at the UK standard rate of corporation tax of 19.0% (2021 19.0%)	(1)	8
Expenses not deductible	(2)	(2)
Income not taxable	4	1
Tax credit/(charge) in respect of change in UK tax rate	4	(29)
Adjustment in respect of prior periods	1	–
Effect of different tax rates of subsidiaries in other jurisdictions	(1)	(1)
Total tax credit/(charge) in the Group income statement	5	(23)

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

	2022 52 weeks £m	2021 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	(12)	(13)
Retirement benefit obligations	(8)	(29)
Unrealised gains on revaluations	23	–
Tax losses – UK	(9)	35
Tax losses – Interest restriction	13	–
Share-based payments	–	1
Rolled over and held over gains	–	(19)
Depreciated non-qualifying assets	–	(1)
Right-of-use assets	–	1
Total deferred tax credit/(charge) in the Group income statement	7	(25)

Taxation – other comprehensive income

	2022 52 weeks £m	2021 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised losses/gains due to revaluations – revaluation reserve	46	(117)
– Unrealised losses/gains due to revaluations – retained earnings	(5)	16
– Rolled over and held over gains – retained earnings	–	(20)
– Remeasurement of pension liability and rate change of pension liability	(9)	24
	32	(97)
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges	(45)	(4)
Total tax charge recognised in other comprehensive income	(13)	(101)

Tax relating to items recognised directly in equity

	2022 52 weeks £m	2021 52 weeks £m
Deferred tax:		
– Tax (charge)/credit related to share-based payments	(1)	2

Taxation – Group balance sheet

The deferred tax assets and liabilities recognised in the Group balance sheet are shown below:

	2022 £m	2021 £m
Deferred tax assets:		
Retirement benefit obligation (note 4.5)	14	31
Derivative financial instruments	8	53
Tax losses – UK	43	52
Share-based payments	2	3
Right-of-use assets	6	6
Tax losses – Interest restriction	13	–
Total deferred tax assets	86	145
Deferred tax liabilities:		
Accelerated capital allowances	(57)	(44)
Rolled over and held over gains	(164)	(164)
Unrealised gains on revaluations	(211)	(275)
Depreciated non-qualifying assets	(4)	(4)
Total deferred tax liabilities	(436)	(487)
Total	(350)	(342)

At 24 September 2022, the Group has netted off deferred tax assets of £82m (2021 £141m) with deferred tax liabilities where there is a legally enforceable right to settle on a net basis. Deferred tax assets and liabilities have been offset and disclosed in the Group balance sheet as follows:

	2022 £m	2021 £m
Deferred tax assets (after offsetting)	4	4
Deferred tax liabilities (after offsetting)	(354)	(346)
Net deferred tax liability	(350)	(342)

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £95m in respect of unclaimed capital allowances (2021 £97m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £24m (2021 £24m) because it is not certain that future taxable profits will be available in the company where these tax allowances arose against which the Group can utilise these benefits. These tax credits can be carried forward indefinitely.

Factors which may affect future tax charges

The Finance Act 2021 increased the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The effect of this change has been reflected in the closing deferred tax balances at 25 September 2021 and 24 September 2022.

Section 2 – Results for the period continued

2.5 Earnings/(loss) per share

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

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

Adjusted earnings/(loss) per ordinary share amounts are presented before separately disclosed items (see note 2.2) in order to allow an understanding of the adjusted trading performance of the Group.

The profits/(losses) used for the earnings/(loss) per share calculations are as follows:

	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) for the period	13	(65)
Separately disclosed items, net of tax	94	(12)
Adjusted profit/(loss) for the period ^a	107	(77)

a. Adjusted profit/(loss) and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 177 to 179 of this report.

The number of shares used for the earnings/(loss) per share calculations are as follows:

	2022 52 weeks £m	2021 52 weeks £m
Basic weighted average number of ordinary shares	595	566
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	1	1
Diluted weighted average number of shares	596	567

	2022 52 weeks pence	2021 52 weeks pence
Basic earnings/(loss) per share		
Basic earnings/(loss) per share	2.2p	(11.5)p
Separately disclosed items net of tax per share	15.8p	(2.1)p
Adjusted basic earnings/(loss) per share	18.0p	(13.6)p
Diluted earnings/(loss) per share		
Diluted earnings/(loss) per share	2.2 p	(11.5)p
Adjusted diluted earnings/(loss) per share ^a	18.0 p	(13.6)p

a. Adjusted earnings/(loss) and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained on pages 177 to 179 of this report.

At 24 September 2022, 4,839,607 (2021 800,570) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

Section 3 – Operating assets and liabilities

3.1 Property, plant and equipment

Accounting policies

Property, plant and equipment

The majority of the Group's freehold and long leasehold licensed land and buildings, and the associated landlord's fixtures, fittings and equipment (i.e. fixed fittings) are revalued annually and are therefore held at fair value less depreciation. Tenant's fixtures and fittings (i.e. loose fixtures) within freehold and long leasehold properties, are held at cost less depreciation and impairment.

Short leasehold buildings (leases with an unexpired lease term of less than 50 years), unlicensed land and buildings and associated fixtures, fittings and equipment are held at cost less depreciation and impairment.

All land and buildings are disclosed as a single class of asset within the property, plant and equipment table, as we do not consider the short leasehold and unlicensed buildings to be material for separate disclosure.

Non-current assets held for sale are held at their carrying value or their fair value less costs to sell where this is lower.

Depreciation

Depreciation is charged to the income statement on a straight-line basis to write off the cost less residual value over the estimated useful life of an asset and commences when an asset is ready for its intended use. Expected useful lives and residual values are reviewed each period and adjusted if appropriate. No adjustments have been made in the period.

Freehold land is not depreciated.

Freehold and long leasehold buildings are depreciated so that the difference between their carrying value and estimated residual value is written off over 50 years from the date of acquisition. The residual value of freehold and long leasehold buildings is reassessed each period and is estimated to be equal to the fair value determined in the annual valuation and therefore no depreciation charge is recognised.

Short leasehold buildings, and associated fixtures and fittings, are depreciated over the shorter of the estimated useful life and the unexpired term of the lease.

Fixtures, fittings and equipment have the following estimated useful lives:

Information technology equipment	3 to 7 years
Fixtures and fittings	3 to 20 years

At the point of transfer to non-current assets held for sale, depreciation ceases. Should an asset be subsequently reclassified to property, plant and equipment, the depreciation charge is calculated to reflect the cumulative charge had the asset not been reclassified.

Disposals

Profits and losses on disposal of property, plant and equipment are calculated as the difference between the net sales proceeds and the carrying amount of the asset at the date of disposal.

Revaluation

The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; estimates of fair maintainable trade comprising estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP); and estimated fair value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its estimated fair value. Where sites have been impacted by expansionary capital investment in the preceding twelve months, fair maintainable trade is taken as the post-investment forecast, as the current period trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by the Directors and the third-party valuer.

Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, for example, due to low levels of income or location characteristics, a spot valuation is applied.

Surpluses which arise from the revaluation exercise are included within other comprehensive income (in the revaluation reserve) unless they are reversing a revaluation deficit which has been recognised in the income statement previously; in which case an amount equal to a maximum of that recognised in the income statement previously is recognised in the income statement. Where the revaluation exercise gives rise to a deficit, this is reflected directly within the income statement, unless it is reversing a previous revaluation surplus against the same asset; in which case an amount equal to the maximum of the revaluation surplus is recognised within other comprehensive income (in the revaluation reserve).

Impairment

Short leaseholds, unlicensed properties and fixtures and fittings are reviewed on an outlet basis for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell or value in use. Any changes in outlet earnings or cash flows, the discount rate applied to those cash flows, or the estimate of sales proceeds could give rise to an additional impairment loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised in the income statement immediately. An impairment reversal is only recognised where there is a change in the estimates used to determine recoverable amounts, not where it results from the passage of time.

Section 3 – Operating assets and liabilities *continued***3.1 Property, plant and equipment** *continued***Accounting judgements****Revaluation of freehold and long leasehold properties**

The revaluation methodology is determined, with advice from third-party valuers, incorporating management judgement where appropriate. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of freehold and long leasehold licensed land and buildings.

At the prior period reporting date of 25 September 2021, judgement was applied to determine the most appropriate measure of site level fair maintainable trade. Given further periods of enforced closure, as a result of Covid-19, persisted throughout the majority of the first half of the financial year, the 52 week average trading performance to March 2020 was still considered to be the most appropriate measure of site level fair maintainable trade in the prior period.

The emergence of the Omicron variant of Covid-19 in November 2021 negatively impacted trade in the first half of the current financial period. As a result fair maintainable trade at 24 September 2022 has been determined by adjusting the prior period fair maintainable trade on the basis of turnover (FMT) and operating profit margin (FMOP) performance trends over the second half of the financial period. This adjustment is a matter of judgement that reflects the extent to which licensed property fair values are being impacted by performance over this period, as advised by third-party valuers.

Where sites have been impacted by expansionary capital investment in the preceding twelve months, management judgement is used to determine the most appropriate source of site level fair maintainable trade, as the current period trading performance includes a period of closure. Fair maintainable trade has been determined by estimating both FMT and FMOP by reference to post-investment forecasts and turnover trends post opening.

Brand standard property multiples have been established by CBRE via third-party inspections of 20% of the freehold and long leasehold licensed property estate. Market conditions that resulted in Covid-19 multiple reductions in the prior period are no longer considered relevant by CBRE due to the strength of the property market. As a result the average multiple adopted has increased at 24 September 2022.

Further judgement is required where the property value derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value. In this instance, management apply a spot valuation.

Impairment review of short leasehold and unlicensed properties

For the short leasehold property impairment review, judgement has been applied to determine the most appropriate site level profit and cash flow forecasts based on the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date.

Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributable to a site on a consistent basis.

Significant accounting estimates**Revaluation of freehold and long leasehold properties**

The application of the valuation methodology requires two significant estimates; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, consisting of estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP). FMT and FMOP are determined at a site level by reference to both historic and future projected income levels. The valuers also make reference to market evidence of transaction prices for similar properties to support the multiples adopted. There is considered to be a significant risk that an adjustment to either of these assumptions could lead to a material change in the property valuation within the next year.

A sensitivity analysis of changes in valuation multiples and fair maintainable trade, in relation to the properties to which these estimates apply, is provided on page 136. The carrying value of properties to which these estimates apply is £4,036m (2021 £4,277m).

Other sources of estimation uncertainty**Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings**

The impairment review requires three key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate. Both the discount rate and long-term growth rate are applied consistently to each cash-generating unit.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth rate is provided on page 136. The carrying value of assets to which these estimates apply is £134m (2021 £146m).

Property, plant and equipment

Property, plant and equipment can be analysed as follows:

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost or valuation			
At 26 September 2020	3,868	1,026	4,894
Additions	14	29	43
Disposals ^a	(5)	(106)	(111)
Net increase from property revaluation	201	–	201
Impairment of short leasehold properties	(1)	(4)	(5)
Exchange differences	(1)	(2)	(3)
At 25 September 2021	4,076	943	5,019
Additions	41	89	130
Disposals ^a	(9)	(106)	(115)
Net decrease from property revaluation	(273)	–	(273)
Impairment of short leasehold properties	(5)	(4)	(9)
Exchange differences	1	1	2
At 24 September 2022	3,831	923	4,754
Accumulated depreciation			
At 26 September 2020	78	511	589
Provided during the period	5	93	98
Disposals ^a	(2)	(106)	(108)
Exchange differences	(1)	(1)	(2)
At 25 September 2021	80	497	577
Provided during the period	5	88	93
Disposals ^a	(5)	(106)	(111)
Exchange differences	–	1	1
At 24 September 2022	80	480	560
Net book value			
At 24 September 2022	3,751	443	4,194
At 25 September 2021	3,996	446	4,442
At 26 September 2020	3,790	515	4,305

a. Includes assets which are fully depreciated and have been removed from the fixed asset register.

Certain assets with a net book value of £41m (2021 £41m) owned by the Group are subject to a fixed charge in respect of liabilities held by the Mitchells & Butlers Executive Top-Up Scheme (MABETUS).

Included within property, plant and equipment are assets with a net book value of £3,577m (2021 £3,806m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title. Further details of the securitisation are provided in note 4.1.

Cost at 24 September 2022 includes £17m (2021 £14m) of assets in the course of construction.

Section 3 – Operating assets and liabilities *continued*

3.1 Property, plant and equipment *continued*

Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at fair value, as at 24 September 2022, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2022 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the Red Book) assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the rebuild in trade following reopening as a result of Covid-19, current cost inflationary pressures notably on labour and energy costs, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the current period, CBRE have increased the property multiples by removing the deduction applied in the prior period for the expected impact of Covid-19. Property multiples have returned to pre-Covid levels, with some brand multiples exceeding the pre-Covid level, which is a reflection of the current demand in the freehold licensed property market.

Sensitivity analysis

Changes in the fair maintainable trade, or the multiple could materially impact the valuation of the freehold and long leasehold properties, and as such they are both considered to be significant estimates in the current period.

Fair maintainable trade

As noted in the accounting judgements above, fair maintainable trade in the prior period was determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. In the current period, site level fair maintainable trade has been adjusted to reflect more recent performance, by adjusting fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP) with reference to both sales and profit margin trends over periods 7 to 12 of FY 2022 (13 March 2022 to 27 August 2022).

In the current period, fair maintainable trade has declined by 8% as a result of the combined impact of the FMT and FMOP adjustments made. Judgement has been applied to determine the adjustments to FMT and FMOP, by assessing the extent that current trading performance is considered to be impacting on freehold licensed property values. As a result, the valuation is sensitive to the view taken on the duration of the impact of high inflation on fair maintainable trade. Should the fair maintainable trade used as the basis in property valuations decline further in line with EBITDA trends over the second half of the reporting period, fair maintainable trade may decline by a further 8%. Assuming multiples remain stable, and without applying any further judgement on the resulting property valuation, this would generate an approximate £284m reduction in the valuation.

Multiples

Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.3, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.3 change in the multiple would generate an approximate £115m movement in valuation.

Impairment review

Short leasehold and unlicensed properties (comprising land, buildings, fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculations are insufficient to justify their current net book value.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance pre-tax cash flows, for years 1 to 3. These include steady growth in revenue and cost increases, notably across energy, labour and food, equivalent to c. 10% of the cost base in year 1, with an easing of inflationary pressure in years 2 and 3, as recent increases in energy prices are assumed to reduce, albeit they remain significantly ahead of historical levels. The forecast cash flows are discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%) and a long-term growth rate of 2.0% from year 4 (2021 2.0%). The long-term growth rate is applied to the net cash flows and is based on up-to-date economic data points.

Sensitivity analysis

Changes in forecast cash flows, the discount rate or the long-term growth rate could impact the impairment charge recognised for short leasehold and unlicensed properties.

Forecast cash flows

The forecast pre-tax cash flows used in the value in use calculations are site level forecasts determined from the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date. Management has determined a potential downside scenario to forecast trading as part of the going concern review discussed on pages 121 and 122. This would result in an increase of £2m to the impairment recognised.

Discount rate

The pre-tax discount rate applied to the forecast cash flows is derived from the Group's post-tax weighted average cost of capital (WACC). The assumptions used in the calculation of the Group's WACC are benchmarked to externally available data. A single discount rate is applied to all cash-generating units. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.1%. There is no material impact on the impairment charge to changes to the discount rate within a reasonable range.

Long-term growth rate

The long-term growth applied to the net cash flows in the value in use calculations is 2.0%. There is no reasonable scenario for the long-term growth rate under which further impairment occurs.

Current period valuations have been incorporated into the consolidated financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or Group income statement as appropriate.

The impact of the revaluations/impairments described above is as follows:

	2022 52 weeks £m	2021 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	(115)	(2)
Reversal of past revaluation deficits	29	53
Total impairment (impairment charge)/reversal arising from the revaluation	(86)	51
Impairment of short leasehold and unlicensed properties	(9)	(2)
Impairment of freehold and long leasehold tenant's fixtures and fittings	–	(3)
Total impairment of short leaseholds, unlicensed properties and tenant's fixtures and fittings	(9)	(5)
Total (impairment charge)/impairment reversal recognised in the income statement	(95)	46
Group statement of other comprehensive income		
Unrealised revaluation surplus	60	154
Reversal of past revaluation surplus	(247)	(4)
Total movement recognised in other comprehensive income	(187)	150
Net (decrease)/increase in property, plant and equipment	(282)	196

The valuation techniques are consistent with the principles in IFRS 13 and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

The number of pubs included in the revaluation and the resulting valuation of these properties is reconciled to the total value of property, plant and equipment below.

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
24 September 2022				
Freehold properties	1,328	3,419	344	3,763
Long leasehold properties	94	243	30	273
Total revalued properties	1,422	3,662	374	4,036
Short leasehold properties		61	56	117
Unlicensed properties		14	3	17
Other non-pub assets		2	5	7
Assets under construction		12	5	17
Total property, plant and equipment		3,751	443	4,194
	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value ^a £m
25 September 2021				
Freehold properties	1,329	3,640	346	3,986
Long leasehold properties	94	262	29	291
Total revalued properties	1,423	3,902	375	4,277
Short leasehold properties		68	61	129
Unlicensed properties		15	2	17
Other non-pub assets		1	4	5
Assets under construction		10	4	14
Total property, plant and equipment		3,996	446	4,442

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,549m and £177m respectively (2021 £2,601m and £180m).

*Section 3 – Operating assets and liabilities continued***3.1 Property, plant and equipment continued**

The tables below show, by class of asset, the number of properties that have been valued within each FMT and multiple banding:

	Valuation multiple applied to FMT					Total
	Over 10 times	9 to 10 times	8 to 9 times	7 to 8 times	Under 7 times	
24 September 2022						
Number of pubs in each FMT income banding:						
< £200k p.a.	67	59	129	174	17	446
£200k to £360k p.a.	21	148	188	102	13	472
> £360k p.a.	65	148	242	38	11	504
	153	355	559	314	41	1,422

	Valuation multiple applied to FMT					Total
	Over 10 times	9 to 10 times	8 to 9 times	7 to 8 times	Under 7 times	
25 September 2021						
Number of pubs in each FMT income banding:						
< £200k p.a.	70	40	99	140	26	375
£200k to £360k p.a.	15	110	168	115	46	454
> £360k p.a.	54	145	280	79	36	594
	139	295	547	334	108	1,423

Movements in valuation multiples between financial periods are the result of changes in property market conditions. The average weighted multiple is 8.7 (2021 8.4).

Capital commitments

	2022 £m	2021 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the consolidated financial statements	28	10

3.2 Leases

Leases – Group as lessee

Accounting policies

The Group assesses whether a contract is or contains a lease, at inception of the contract.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of twelve months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the future lease payments unpaid at the lease commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives receivable; and
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a break option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, adjusted for any advance payments made at or before lease commencement, less any lease incentives received and any initial direct costs (including lease premiums).

Whenever the Group incurs an obligation to restore the underlying asset to the condition required by the terms and conditions of the lease, a dilapidations provision is recognised and measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the remaining committed lease term on a straight-line basis. Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets.

Right-of-use assets are subsequently remeasured for any changes in lease term and future committed rental payments.

For short-term leases (lease term of twelve months or less), and leases of low-value assets (such as personal computers and office furniture), the Group recognises a lease expense on a straight-line basis, directly in the income statement, as permitted by IFRS 16.

Impairment of right-of-use assets

Right-of-use assets are tested annually for impairment in accordance with IAS 36 Impairment of Assets, by comparing their recoverable amounts to their carrying values. Any resulting impairment relates to properties with poor forecast trading performance, where their estimated recoverable amount is insufficient to justify their current net book value. For practical reasons the impairment review of right-of-use assets is performed simultaneously with the impairment review of the associated short leasehold properties classified within property, plant and equipment, as an individual site is a single cash-generating unit (see note 3.1).

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows.

Accounting judgements

Impairment of right-of-use assets

Judgement is required when assessing whether a right-of-use asset should be impaired. As impairment is considered at a cash-generating unit level, with this being an individual outlet, the carrying value used in the impairment test, is the total of the right-of-use asset value and the value held in property, plant and equipment. As such, the judgements used in the impairment review are the same as those described in note 3.1 on page 134.

Sources of estimation uncertainty

As noted above, the impairment review of right-of-use assets is performed in combination with the impairment review of property, plant and equipment. The three key sources of estimation uncertainty are described in note 3.1 on page 134. They are, the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate.

A sensitivity of changes in forecast cash flows, the discount rate and the long-term growth is provided on page 141. The carrying value of assets to which these estimates apply is £339m (2021 £379m).

Section 3 – Operating assets and liabilities continued

3.2 Leases continued

Right-of-use assets

Right-of-use assets can be analysed as follows:

	Land and buildings £m	Cars £m	Total £m
Cost			
At 26 September 2020	535	5	540
Additions ^a	24	1	25
Disposals	(2)	(1)	(3)
Foreign currency movements	(2)	–	(2)
At 25 September 2021	555	5	560
Additions ^a	24	2	26
Disposals	(13)	(1)	(14)
Foreign currency movements	2	–	2
At 24 September 2022	568	6	574
Accumulated depreciation and impairment			
At 26 September 2020	136	2	138
Provided during the period	35	2	37
Disposals	(1)	(1)	(2)
Impairment	8	–	8
At 25 September 2021	178	3	181
Provided during the period	35	1	36
Disposals	(4)	(1)	(5)
Impairment	22	–	22
Foreign currency movements	1	–	1
At 24 September 2022	232	3	235
Net book value			
At 24 September 2022	336	3	339
At 25 September 2021	377	2	379
At 26 September 2020	399	3	402

a. Additions to right-of-use assets include new leases, increases in dilapidation provisions and lease extensions or rent reviews relating to existing leases.

Some of the property leases in which the Group is lessee contain variable lease payment terms that are linked to the revenue generated from the leased pubs. Variable payment terms are used in contracts to link rental payments to pub cash flows and reduce fixed costs. The total value of variable lease payments charged to the income statement in the current period are £2m (2021 £nil).

Impairment review of right-of-use assets

Right-of-use assets are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current net book value.

As impairment is considered at a cash-generating unit level, with this being an individual outlet, the carrying value used in the impairment test, includes the total of the right-of-use asset value and the value held in property, plant and equipment. Impairment for property, plant and equipment is described in note 3.1. In summary, the carrying value of the cash-generating units and impairment recognised against those cash-generating units is as follows.

	Note	Carrying value 2022 £m	Impairment recognised 2022 £m	Carrying value 2021 £m	Impairment recognised 2021 £m
Short leasehold properties	3.1	117	(9)	129	(2)
Right-of-use assets		339	(22)	379	(8)
		456	(31)	508	(10)

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance pre-tax cash flows, for years 1 to 3. These include steady growth in revenue and cost increases, notably across energy, labour and food, equivalent to c. 10% of the cost base in year 1, with an easing of inflationary pressure in years 2 and 3, as recent increases in energy prices are assumed to reduce, albeit they remain significantly ahead of historical levels. The forecast cash flows are discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%) and a long-term growth rate of 2.0% from year 4 (2021 2.0%). The long-term growth rate is applied to the net cash flows and is based on up-to-date economic data points.

Impairment review of corporate level assets

In addition to the short leasehold property and right-of-use asset impairment review performed at a cash-generating unit level, the overall Group's cash-generating units have been grouped together to ensure that the corporate level assets are also considered for impairment. The assumptions are consistent with those described above for the value in use calculations performed at an individual outlet level, whilst also including unallocated central overheads. As a result of this review, no additional impairment has been recognised in the current period. A sensitivity analysis has been provided below.

Sensitivity analysis

Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for right-of-use assets. Sensitivity analysis for short leasehold properties has been provided in note 3.1.

Forecast cash flows

The forecast pre-tax cash flows used in the value in use calculations are site level forecasts determined from the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date. Management have determined a potential downside scenario to forecast trading as part of the going concern review discussed on pages 121 and 122. This would result in an increase of £4m to the impairment recognised against right-of-use assets and no further impairment charge at a Group level.

Discount rate

The pre-tax discount rate applied to the forecast cash flows is derived from the Group's post-tax weighted average cost of capital (WACC). The assumptions used in the calculation of the Group's WACC are benchmarked to externally available data. A single discount rate is applied to all cash-generating units. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.1%.

Although considered unlikely, movements in the pre-tax discount rate beyond 10.35% would result in an impairment of c.£40m at Group level for each 0.1% increment.

Long-term growth rate

The long-term growth applied to the net cash flows in the value in use calculations is 2.0%. There is no reasonable scenario for the long-term growth rate under which further impairment occurs, with an almost 1% reduction required before an impairment is recognised.

Lease liabilities

A maturity analysis of the undiscounted future lease payments used to calculate the lease liabilities is shown below.

	2022 £m	2021 £m
Amounts payable under lease liabilities		
Due within one year	68	65
Due between one and two years	42	62
Due between two and three years	47	41
Due between three and four years	43	45
Due between four and five years	38	41
Due between five and ten years	162	166
Due between ten and fifteen	113	121
Due between fifteen and twenty	73	79
Due between twenty and twenty five years	24	32
Due between twenty five and thirty years	12	12
Due after thirty years	80	80
Total undiscounted lease liabilities	702	744
Less: impact of discounting	(221)	(231)
Present value of lease liabilities	481	513
Analysed as:		
Current lease liabilities – amounts due within twelve months	53	50
Non-current lease liabilities – amounts due after twelve months	428	463
	481	513

Section 3 – Operating assets and liabilities continued

3.2 Leases continued

Leases – Group as lessor

Accounting policies

The Group enters into lease agreements as a lessor with respect to some of its properties. The properties are operated as either licensed or unlicensed businesses by the tenants.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Group as lessor – Finance lease receivables

A maturity analysis of the undiscounted future lease payments receivable used to calculate the finance lease receivable is shown below.

	2022 £m	2021 £m
Amounts receivable under finance leases		
Due within one year	1	2
Due between one and two years	1	2
Due between two and three years	1	1
Due between three and four years	1	1
Due between four and five years	1	1
Due after five years	20	21
Total undiscounted lease payments receivable	25	28
Less: unearned finance income	(12)	(13)
Present value of lease payments receivable	13	15
Net investment in the leases is analysed as:		
Current finance lease receivables – amounts due within twelve months	1	1
Non-current finance lease receivables – amounts due after twelve months	12	14
	13	15

The Directors of the Group estimate the loss allowance on finance lease receivables at the end of the reporting period at an amount equal to lifetime expected credit loss (ECL). None of the finance lease receivables at the end of the reporting period is past due. The Directors of the Group have recognised a finance lease receivable impairment of £nil in the current period (2021 £2m).

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the impairment for finance lease receivables.

Group as lessor – Operating leases

The Group leases a small proportion of its licensed and unlicensed properties to tenants. The majority of lease agreements have terms of 50 years or less and are classified as operating leases. Where sublet arrangements are in place, future minimum lease payments and receipts are presented gross.

Total future minimum lease rental receipts under non-cancellable operating leases are as follows:

	2022 £m	2021 £m
Due within one year	9	8
Due between one and two years	8	7
Due between two and three years	8	7
Due between three and four years	6	6
Due between four and five years	6	5
Due after five years	34	30
	71	63

The total value of future minimum sub-lease rental receipts included above is £4m (2021 £3m).

3.3 Working capital

Inventories

Accounting policies

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Inventories can be analysed as follows:

	2022 £m	2021 £m
Goods held for resale	23	19

Trade and other receivables

Accounting policy

Trade receivables are initially recognised at transaction price and other receivables are initially recognised at fair value. Subsequently, these assets are measured at amortised cost. This results in their recognition at nominal value less an allowance for any doubtful debts. The allowance for doubtful debts is recognised based on management's expectation of losses without regard to whether an impairment trigger happened or not (an 'expected credit loss' model). The Group always measures the loss allowance for trade receivables using the simplified model at an amount equal to lifetime ECL. Loss allowance for other receivables is measured either at twelve months or lifetime ECL depending on whether the credit risk has increased significantly since initial recognition (see financial assets impairment policy in note 4.3).

Trade and other receivables can be analysed as follows:

	2022 £m	2021 £m
Trade receivables	13	9
Other receivables	16	12
Gaming machine settlement receivable ^a	20	20
Prepayments	11	7
Other financial assets ^b	21	–
Defined benefit pension blocked account ^c	9	–
Total trade and other receivables	90	48

a. Expected claim amount due from HMRC in relation to a claim for VAT on gaming machines (see note 2.2).

b. Other financial assets relate to cash collateral provided by a swap counterparty (see note 4.3).

c. Contributions to the MABEPP scheme have been paid into a blocked account since the scheme buy-in that took place during the period (see note 4.5 for further details).

All amounts fall due within one year.

All trade, lease and other receivables are non-interest bearing. The Directors consider that the carrying amount of trade receivables and other receivables approximately equates to their fair value. A provision for expected credit loss of £3m (2021 £6m) has been recognised against trade and other receivables.

Credit risk is considered in note 4.3.

Trade and other payables

Accounting policy

Trade and other payables are initially recognised at fair value and recognised subsequently at amortised cost.

Trade and other payables can be analysed as follows:

	2022 £m	2021 £m
Trade payables	106	80
Other taxation and social security	87	61
Accrued charges	151	149
Deferred income	23	22
Other payables	20	21
Other financial liabilities ^a	21	–
Total trade and other payables	408	333

a. Other financial liabilities relate to cash collateral provided by a swap counterparty (see note 4.3).

Current trade and other payables are non-interest bearing. The Directors consider that the carrying amount of trade and other payables approximately equates to their fair value.

*Section 3 – Operating assets and liabilities continued***3.4 Provisions****Accounting policy**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are measured using the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Onerous property provisions represent the expected unavoidable losses on onerous and vacant property leases and comprise the net lease commitment (fixed service charges) not expected to be covered by operating revenue after all other operating costs. The provision is calculated on a site by site basis with a provision being made for the remaining committed lease term, where a lease is considered to be onerous. Other contractual dilapidations costs are also recorded as provisions as appropriate.

Provisions

The provision for unavoidable losses on onerous property leases has been set up to cover fixed service charge payments of vacant or loss-making properties.

The provision for dilapidation costs has been set up to cover the estimated future dilapidation claims from landlords on leases that are within five years of expiry.

Provisions can be analysed as follows:

	Onerous property provisions £m	Dilapidation provisions £m	Total property provisions £m
At 26 September 2020	3	2	5
Provided in the period	–	4	4
Utilised in the period	–	–	–
At 25 September 2021	3	6	9
Provided in the period	2	1	3
Utilised in the period	(1)	–	(1)
Released in the period	(1)	(1)	(2)
At 24 September 2022	3	6	9

3.5 Goodwill and other intangible assets

Accounting policies

Business combinations and goodwill

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values of assets given and liabilities incurred or assumed by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits (revised) respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree, the excess is recognised immediately in the income statement as a bargain purchase.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the contingent consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates, at fair value, with the corresponding gain or loss being recognised in the income statement.

When a business combination is achieved in stages, the Group's previously-held interests in the acquired entity is re-measured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill is not amortised, but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. The impairment review requires management to consider the recoverable value of the business to which the goodwill relates, based on either the fair value less costs to sell or the value in use. Value in use calculations require management to consider the net present value of future cash flows generated by the business to which the goodwill relates. Fair value less costs to sell is based on management's estimate of the net proceeds which could be generated through disposing of that business. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Computer software

Computer software and associated development costs, which are not an integral part of a related item of hardware, are capitalised as an intangible asset and amortised on a straight-line basis over their useful life. The period of amortisation ranges between three and seven years with the majority being five years.

Section 3 – Operating assets and liabilities continued

3.5 Goodwill and other intangible assets continued

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 26 September 2020	7	18	25
Additions	–	4	4
Disposals	–	(4)	(4)
At 25 September 2021	7	18	25
Additions	–	5	5
Disposals	–	(3)	(3)
At 24 September 2022	7	20	27
Accumulated amortisation and impairment			
At 26 September 2020	5	6	11
Provided during the period	–	4	4
Disposals	–	(3)	(3)
At 25 September 2021	5	7	12
Provided during the period	–	4	4
Disposals	–	(3)	(3)
At 24 September 2022	5	8	13
Net book value			
At 24 September 2022	2	12	14
At 25 September 2021	2	11	13
At 26 September 2020	2	12	14

With the exception of goodwill, there are no intangible assets with indefinite useful lives. All amortisation charges have been expensed through operating costs.

Goodwill has been tested for impairment within each cash-generating unit, on a site-by-site basis using forecast cash flows, discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the three-year period include 2.0% (2021 2.0%) growth per annum. No impairment has been recognised in the current or prior period.

3.6 Associates

Accounting policy

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, an investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. If after reassessment the Group's share of the net fair value of the identifiable assets and liabilities are in excess of the cost of the investment, this is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 36 Impairment of Assets are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest, and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss when the equity method is discontinued.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The nature of the activities of all of the Group's associates is trading in pubs and restaurants, which are seen as complementing the Group's operations and contributing to the Group's overall strategy.

Associates can be analysed as follows:

	£m
Cost	
At 26 September 2020	4
Share in associates results	1
At 25 September 2021	5
Share in associates results	1
At 24 September 2022	6

Associates relate to shareholdings in 3Sixty Restaurants Limited and Fatboy Pub Company Limited that were acquired in a prior period. Details of these associates are provided in note 5.2. The carrying value relates to £6m (2021 £5m) for 3Sixty Restaurants Limited and £nil (2021 £nil) for Fatboy Pub Company Limited.

Forecast performance for 3Sixty Restaurants Limited has been reviewed in the light of Covid-19 and current cost inflation pressures, as there is the potential for a material impact on future earnings. However, as a result of site location and offer and having reviewed more recent performance, there is no indication of a sustained deterioration of profitability and therefore no impairment has been recognised.

During a prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m. The current shareholders also have the ability under the option to sell the remaining 60% to the Company, subject to a number of conditions. During the prior period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option was extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 24 September 2022 is £1m (2021 £1m). This has been recognised as a financial asset at FVTPL (see note 4.3).

Section 4 – Capital structure and financing costs

4.1 Borrowings

Accounting policy

Borrowings, which include the Group's secured loan notes, are stated initially at fair value (normally the amount of the proceeds) net of issue costs. Thereafter they are stated at amortised cost using an effective interest basis. Finance costs, which are the difference between the net proceeds and the total amount of payments to be made in respect of the instruments, are allocated over the term of the debt using the effective interest method. Borrowing costs are not attributed to the acquisition or construction of assets and therefore no costs are capitalised within property, plant and equipment.

Borrowings can be analysed as follows:

	2022 £m	2021 £m
Current		
Securitised debt ^{a,b}	113	110
Unsecured revolving credit facilities ^c	–	(1)
Overdraft ^d	17	25
Total current	130	134
Non-current		
Securitised debt ^{a,b}	1,334	1,416
Total borrowings	1,464	1,550

- a. Further details of the assets pledged as security against the securitised debt are given on page 135.
b. Stated net of deferred issue costs.
c. As at 24 September 2022 the amount of £nil (2021 (£1m)) represents unamortised issue costs.
d. The overdraft is within a cash pooling arrangement. In the cash flow statement, cash and cash equivalents are presented net of this overdraft (see note 4.4).

	2022 £m	2021 £m
Analysis by year of repayment		
Due within one year or on demand	130	134
Due between one and two years	182	142
Due between two and five years	412	390
Due after five years	740	884
Total borrowings	1,464	1,550

Securitised debt

On 13 November 2003, the Group refinanced its debt by raising £1,900m through a securitisation of the majority of its UK pubs and restaurants owned by Mitchells & Butlers Retail Limited. On 15 September 2006 the Group completed a further debt ('tap') issue to borrow an additional £655m and refinance £450m of existing debt at lower cost.

The loan notes consist of ten tranches as follows:

Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	Principal outstanding		Expected WAL ^a
					24 September 2022 £m	25 September 2021 £m	
A1N	200	Floating	2011 to 2028	6.61 ^b	87	99	3 years
A2	550	Fixed – 5.57%	2003 to 2028	5.72	158	180	3 years
A3N	250	Floating	2011 to 2028	6.69 ^b	109 ^c	123 ^c	3 years
A4	170	Floating	2016 to 2028	6.37 ^b	103	116	3 years
AB	325	Floating	2020 to 2032	6.28 ^b	291	305	7 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	26	46	1 year
B2	350	Fixed – 6.01%	2015 to 2028	6.12	255	270	4 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	200	200	7 years
C2	50	Floating	2033 to 2034	6.47 ^b	50	50	11 years
D1	110	Floating	2034 to 2036	6.68 ^b	110	110	13 years
	2,555				1,389	1,499	

- a. Expected weighted average life (WAL) assumes no early redemption in respect of any loan notes.
b. After the effect of interest rate swaps.
c. A3N notes are US\$ notes which are shown as translated to sterling at the hedged swap rate. Values at the period end spot rate are £168m (2021 £151m). Therefore the exchange difference on the A3N notes is £59m (2021 £28m).

The notes are secured on the majority of the Group's property and future income streams therefrom. All of the floating rate notes are hedged using interest rate swaps which fix the interest rate payable.

Interest and margin is payable on the floating rate notes as follows:

Tranche	Interest	Margin
A1N	3 month SONIA	0.57%
A3N	3 month US\$ LIBOR	0.45%
A4	3 month SONIA	0.69%
AB	3 month SONIA	0.72%
C2	3 month SONIA	1.99%
D1	3 month SONIA	2.24%

The overall cash interest rate payable on the loan notes is 6.3% (2021 6.3%) after taking account of interest rate hedging and the cost of the financial guarantee provided by Ambac Assurance UK Limited (Ambac). Ambac acts as a guarantor of the Group's obligations to repay interest and principal on the loan notes. In the event that the Group is unable to pay such amounts the guarantee is limited to the Class A1N, A3N, A4 and Class AB note holders only.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Mitchells & Butlers Retail Limited, the Group's main operating subsidiary. There are two main financial covenants, being the level of net assets and free cash flow (FCF) to debt service. FCF to debt service represents the multiple of cash generated by sites within the structure to the cost of debt service. This is tested quarterly on both a trailing two quarter and a four quarter basis. There are additional covenants regarding the maintenance and disposal of securitised properties and restrictions on its ability to move cash, by way of dividends for example, to other Group companies. Further details of the covenants are provided in the going concern review on pages 121 and 122.

During the prior period, and as a result of the ongoing Covid-19 pandemic, revised arrangements regards the secured financing structure were agreed with the controlling creditor of the securitisation and the securitisation trustee. As a result, a series of amendments and waivers to the securitisation covenants were obtained, as detailed in the Annual Report and Accounts 2021.

At 24 September 2022, Mitchells & Butlers Retail Limited had cash and cash equivalents of £61m (2021 £66m). Of this amount £1m (2021 £1m), representing disposal proceeds, was held on deposit in an account over which there are a number of restrictions. The use of this cash requires the approval of the securitisation trustee and may only be used for certain specified purposes such as capital enhancement expenditure and business acquisitions.

The carrying value of the securitised debt in the Group balance sheet is analysed as follows:

	2022 £m	2021 £m
Principal outstanding at beginning of period	1,527	1,647
Principal repaid during the period	(115)	(107)
Net principal receipts on cross currency swap	5	3
Exchange on translation of dollar loan notes	31	(16)
Principal outstanding at end of period	1,448	1,527
Deferred issue costs	(3)	(3)
Accrued interest	2	2
Carrying value at end of period	1,447	1,526

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties.

During the prior period, as a result of the Covid-19 pandemic, the Group obtained an extension to an existing waiver to facilitate drawings of up to £110m in total under the liquidity facility, providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings were repaid in full by 15 December 2021.

The amount drawn at 24 September 2022 is £nil (2021 £nil).

Unsecured revolving credit facilities

At the start of the prior period the Group held unsecured committed revolving credit facilities totalling £150m (comprising three £50m bilateral facilities) and an uncommitted overdraft facility of £5m, available for general corporate purposes. The unsecured committed revolving credit facilities were fully drawn at £150m during the prior period and subsequently repaid and cancelled on 12 March 2021. These facilities were replaced with a single unsecured committed revolving credit facility of £150m. The new committed facility expires on 14 February 2024. The amount drawn at 24 September 2022 is £nil (2021 £nil).

There are covenants on the unsecured revolving credit facilities relating to the ratio of EBITDAR to rent plus interest and net debt to EBITDA based on the performance of the unsecured estate. Further details of the covenants are provided in the going concern review on pages 121 and 122.

Section 4 – Capital structure and financing costs continued

4.2 Finance costs and income

	2022 52 weeks £m	2021 52 weeks £m
Finance costs		
Interest on securitised debt	(94)	(98)
Interest on other borrowings	(5)	(7)
Interest on lease liabilities	(16)	(17)
Total finance costs	(115)	(122)
Finance income		
Interest receivable – cash	1	2
Net pensions finance charge (note 4.5)	(2)	(3)

4.3 Financial instruments

Accounting policies

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised or derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets, where applicable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial asset.

The Group adopts the simplified approach detailed in IFRS 9 for trade receivables and finance lease receivables and therefore recognises lifetime ECL on these assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial asset has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Definition of default

The Group considers financial asset to be in default when information developed internally or obtained from external sources indicates that a debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial asset at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to twelve-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group does not retain substantially all the risks and rewards of ownership but continues to control a transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities

The Group has financial liabilities relating to borrowings, for which the accounting policy is provided in note 4.1. Other financial liabilities are initially measured at fair value, net of transaction costs.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at fair value through profit or loss (FVTPL).

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability discharged and the consideration paid and payable is recognised in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating finance charges over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the debt instrument, or where appropriate, a shorter period, to the amortised cost of a financial liability. Finance charges are recognised on an effective interest basis for all debt instruments.

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including interest rate and currency swaps.

Derivative financial instruments are initially measured at fair value on the contract date and are remeasured to fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both the current legal right to offset and intention to settle on a net basis or realise simultaneously. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than twelve months and it is not expected to be realised or settled within twelve months. Other derivatives are presented as current assets or current liabilities.

Section 4 – Capital structure and financing costs *continued*

4.3 Financial instruments *continued*

Hedge accounting

The Group designates its derivative financial instruments, i.e. interest rate and currency swaps, as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Hedge accounting is discontinued only when the hedging relationship ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold or terminated. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in the hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the hedging reserve is reclassified immediately to profit or loss.

Financial risk management

Financial risk is managed by the Group's Treasury function. The Group's Treasury function is governed by a Board Approved Treasury Policy Statement which details the key objectives and policies for the Group's treasury management. The Treasury Committee ensures that the Treasury Policy is adhered to, monitors its operation and agrees appropriate strategies for recommendation to the Board. The Treasury Policy Statement is reviewed annually, with recommendations for change made to the Board, as appropriate. The Group Treasury function is operated as a cost centre and is the only area of the business permitted to transact treasury deals. It must also be consulted on other related matters such as the provision of guarantees or the financial implications of contract terms.

An explanation of the Group's financial instrument risk management objectives and strategies is set out below.

The main financial risks which impact the Group result from funding and liquidity risk, credit risk, capital risk and market risk, principally as a result of changes in interest and currency rates. Derivative financial instruments, principally interest rate and foreign currency swaps, are used to manage market risk. Derivative financial instruments are not used for trading or speculative purposes.

Funding and liquidity risk

In order to ensure that the Group's long-term funding strategy is aligned with its strategic objectives, the Treasury Committee regularly assesses the maturity profile of the Group's debt, alongside the prevailing financial projections. This enables it to ensure that funding levels are appropriate to support the Group's plans.

The current funding arrangements of the Group consist of the securitised notes issued by Mitchells & Butlers Finance plc (and associated liquidity facility) along with an unsecured committed revolving credit facility of £150m. The terms of the securitisation and the revolving credit facilities contain various financial covenants. Details of covenant amendments and waivers obtained as a result of the Covid-19 pandemic to mitigate the risk to liquidity are provided in note 4.1 and in the going concern review on pages 121 and 122. Compliance with these covenants is monitored by Group Treasury. The Group also has uncommitted credit facilities of £5m.

The Group prepares a rolling daily cash forecast covering a six week period and an annual cash forecast by period. These forecasts are reviewed on a daily basis and are used to manage the investment and borrowing requirements of the Group. A combination of cash pooling and zero balancing agreements are in place to ensure the optimum liquidity position is maintained. The Group maintains sufficient cash balances or committed facilities outside the securitisation to ensure that it can meet its medium-term anticipated cash flow requirements.

The maturity table below details the contractual undiscounted cash flows (both principal and interest), based on the prevailing period end interest and exchange rates, for the Group's financial liabilities, after taking into account the effect of interest rate and currency swaps (which are settled gross) and assumes no early redemption in respect of any loan notes. As such these amounts will not always reconcile to amounts disclosed in the Group Balance Sheet.

	Within one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	More than five years £m	Total £m
24 September 2022							
Securitised debt – loan notes	(209)	(203)	(203)	(204)	(204)	(895)	(1,918)
Derivative financial liabilities (settled net)	–	(5)	(5)	(4)	(4)	(12)	(30)
Derivative financial asset receipts	30	28	29	29	30	39	185
Derivative financial asset payments	(21)	(20)	(20)	(20)	(20)	(24)	(125)
Fixed rate: Securitised debt	(200)	(200)	(199)	(199)	(198)	(892)	(1,888)
Lease liabilities	(68)	(42)	(47)	(43)	(38)	(464)	(702)
Trade payables	(106)	–	–	–	–	–	(106)
Other payables	(20)	–	–	–	–	–	(20)
Accrued charges	(151)	–	–	–	–	–	(151)
Other financial liabilities	(21)	–	–	–	–	–	(21)
25 September 2021							
Securitised debt – loan notes	(167)	(169)	(172)	(174)	(176)	(991)	(1,849)
Derivative financial liabilities (settled net)	(37)	(35)	(32)	(29)	(26)	(109)	(268)
Derivative financial asset receipts	19	19	20	21	22	52	153
Derivative financial asset payments	(15)	(16)	(16)	(17)	(18)	(43)	(125)
Fixed rate: Securitised debt	(200)	(201)	(200)	(199)	(198)	(1,091)	(2,089)
Lease liabilities	(65)	(62)	(41)	(45)	(41)	(490)	(744)
Trade payables	(80)	–	–	–	–	–	(80)
Other payables	(21)	–	–	–	–	–	(21)
Accrued charges	(149)	–	–	–	–	–	(149)

Credit risk

The Group Treasury function enters into contracts with third parties in respect of the investment of surplus funds and derivative financial instruments for risk management purposes. These activities expose the Group to credit risk against the counterparties. To mitigate this exposure, Group Treasury operates policies that restrict the general investment of surplus funds and the entering into of derivative transactions to counterparties that have a minimum credit rating of 'A' (long-term) and 'A1'/'P1'/'F1' (short-term). Where ratings subsequently drop below the policy minimum additional approval is sought from the Board to retain the position, or action is taken to move to a higher rated counterparty. The minimum long-term rating of any Group counterparty during the year was 'A'. The amount that can be invested or transacted at various ratings levels is restricted under the policy. Counterparties to derivative financial instruments may also be required to post collateral with the Group where their credit rating falls below a predetermined level. During the period, a collateral amount of £21m has been paid to the Group. This is recognised as an other financial asset and other financial liability in the balance sheet.

To minimise credit risk exposure against individual counterparties, investments and derivative transactions are entered into with a range of counterparties. The maximum investment exposure with any counterparty during the year was £50m (2021 £50m). The Group held investments with eleven counterparties during the year (2021 eleven). The Group Treasury function reviews credit ratings, as published by Moody's, Standard & Poor's and Fitch Ratings, current exposure levels and the maximum permitted exposure at given credit ratings, for each counterparty on a daily basis. Any exceptions are required to be formally reported to the Treasury Committee on a four-weekly basis.

Trade receivables and other receivables mainly represent amounts due from tenants of unlicensed properties, amounts due from Group suppliers and cash collateral deposits held by third parties. Credit exposure relating to tenants is ordinarily considered to be low risk, with an expected lifetime credit loss calculated at the period end to reflect the risk of irrecoverable amounts. To minimise credit risk new tenants are assessed using an external credit rating system before they are approved for tenancy. Credit exposure is reduced for the amounts due from Group suppliers as the Group holds offsetting amounts in trade and other payables that are due to some of these suppliers. Credit risk on cash collateral deposits held by third parties are considered to be low credit risk as they are held with reputable banking institutions by third parties. As a result of the Covid-19 pandemic, credit risk increased in the prior period in relation to trade receivables due to trading restrictions imposed on tenants and an additional expected credit loss allowance was recognised on trade receivables. In the assessment for the current period, the risk has reduced and as a result the expected credit loss allowance has been reduced in the current period.

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

The Group's maximum credit exposure at the balance sheet date was:

	FVTPL £m	12-month ECL £m	Lifetime ECL £m	Total £m
24 September 2022:				
Cash and cash equivalents ^a	–	190	–	190
Trade receivables ^b	–	–	13	13
Other receivables ^b	–	16	–	16
Other financial assets	–	21	–	21
Defined benefit pension blocked account	–	9	–	9
Finance lease receivables ^c	–	–	13	13
Derivatives	60	–	–	60
25 September 2021:				
Cash and cash equivalents ^a	–	227	–	227
Trade receivables ^b	–	–	9	9
Other receivables ^b	–	12	–	12
Finance lease receivables ^c	–	–	15	15
Derivatives	29	–	–	29

- a. Cash and cash equivalents as presented in the cash flow statement. This is presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. Trade receivables and other receivables are shown net of an expected credit loss allowance, as shown in note 3.3.
c. Finance lease receivables expected credit loss allowance is immaterial, as described in note 3.2.

Capital management

The Group's capital base is comprised of its net debt (analysed in note 4.4) plus total equity (disclosed on the face of the Group balance sheet). The objective is to maintain a capital base which is sufficiently strong to support the ongoing development of the business as a going concern, including the amenity, and cash flow generation of the pub estate. By keeping debt and headroom against its debt facilities at an appropriate level, the Group ensures that it maintains a strong credit position, whilst maximising value for shareholders and adhering to its covenants and other restrictions associated with its debt (see note 4.1). In managing its capital structure, from time to time the Group may realise value from non-core assets, buy back or issue new shares, initiate and vary its dividend payments and seek to vary or accelerate debt repayments. The Group's policy is to ensure that the maturity of its debt profile supports its strategic objectives. The Board considers the latest covenant compliance, headroom projections and projected balance sheet positions periodically throughout the period, based on the advice of the Treasury Committee which meets on a four-weekly basis. The Treasury Committee is chaired by the Group Treasurer and monitors Treasury performance and compliance with Board-approved policies. The Group Chief Financial Officer is also a member of the Committee. Further details of the impact of Covid-19 on the capital management of the Group are provided in the going concern review on pages 121 and 122.

Total capital at the balance sheet date is as follows:

	2022 £m	2021 £m
Net debt excluding leases (note 4.4)	1,198	1,270
Total equity	2,143	2,104
Total capital	3,341	3,374

Market risk

The Group is exposed to the risk that the fair value of future cash flows of its financial instruments will fluctuate because of changes in market prices. Market risk comprises foreign currency and interest rate risk.

Foreign currency risk

The most significant currency risk the Group faces is in relation to the class A3N floating rate notes. At issuance of these notes, the Group entered into a cross currency interest rate swap to manage the foreign currency exposure resulting from both the US\$ principal and initial interest elements of the notes. The A3N notes have a carrying value of £168m (2021 £151m) and form part of the securitised debt (see note 4.1).

Sensitivity analysis

Further to the step-up on the A3N notes on 15 December 2010, the Group has additional foreign currency exposure as a result of the increase in US\$ finance costs. A movement of 10% in the US\$ exchange rate would have £nil (2021 £nil) impact on the reported Group profit and £12m (2021 £15m) impact on the reported Group equity.

The Group has no significant profit and loss exposure as a result of retranslating monetary assets and liabilities at different exchange rates. As the Group is predominantly UK-based and acquires the majority of its supplies in sterling, it has no significant direct currency exposure from its operations.

Interest rate risk

The Group has a mixture of fixed and floating interest rate debt instruments and manages the variability in cash flows resulting from changes in interest rates by using derivative financial instruments. Where the necessary criteria are met, the Group minimises the volatility in its consolidated financial statements through the adoption of the hedge accounting provisions permitted under IFRS 9. The interest rate exposure resulting from the Group's £1.4bn securitisation is largely fixed, either as a result of the notes themselves being issued at fixed interest rates, or through a combination of floating rate notes against which effective interest rate swaps are held, which are eligible for hedge accounting.

A number of the Group's financial instruments had LIBOR as their interest reference rate at the start of the period. During the period, the Group completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap providers (using amended reference rates consistent with those agreed under the bonds). All sterling-based facilities and agreements referencing Sterling LIBOR transitioned in the period and now reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1 January 2022. The facilities currently referencing US dollar LIBOR will transition to SOFR plus 26.161 basis points for periods commencing on or after 1 July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis in the prior period, so did not require any further amendment.

As part of the transition, all of the Group's hedge relationships have been reviewed and these continue to be highly effective. Hedge documentation has been updated in accordance with the reliefs permitted in the amendments to IFRS 9, designating the new interest reference rate in both the hedged item and the hedging instrument. As a result of the transition, there has been no impact on the amounts recognised in the income statement or statement of other comprehensive income.

There has been no change to interest rate exposure in the current period. This is consistent with the Group Treasury policy on interest rate management.

Sensitivity analysis

The sensitivity analysis below has been calculated based on the Group's exposure to interest rates for both derivative and non-derivative instruments as at the balance sheet date. A 1% movement is used when reporting interest rate risk internally to key management personnel and represents management's assessment of this reasonably possible change in interest rates.

For floating rate liabilities, which are not hedged by derivative instruments, the analysis has been prepared assuming that the liability outstanding at the balance sheet date was outstanding for the whole period. For interest income the analysis assumes that cash and cash equivalents and other cash deposits that were held in interest bearing accounts at the balance sheet date were held for the whole period.

The Group's sensitivity to a 1% increase in interest rates is detailed below:

	2022 £m	2021 £m
Interest income ^a	2	1
Interest expense ^b	–	–
Profit impact	2	1
Derivative financial instruments (fair values) ^c	40	54
Total equity	42	55

a. Represents interest income earned on cash and cash equivalents and other cash deposits (these are defined in note 4.1).

b. The element of interest expense which is not matched by payments and receipts under cash flow hedges which would otherwise offset the interest rate exposure of the Group.

c. The impact on total equity from movements in the fair value of cash flow hedges.

Derivative financial instruments

Cash flow hedges

Changes in cash flow hedge fair values are recognised in the hedging reserve in equity to the extent that the hedges are effective. The cash flow hedges detailed below have been assessed as being highly effective during the period and are expected to remain highly effective over the remaining contract lives.

The following amounts have been recognised during the period:

	2022 52 weeks £m	2021 52 weeks £m
Gains arising during the period	180	32
Reclassification adjustments for losses included in profit or loss within finance costs	1	56
	181	88

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

Cash flow hedges – securitised borrowings

The nominal and carrying values of cash flow hedges at the balance sheet date, together with the changes in fair value of cash flow hedges during the period, are shown below.

	Nominal amount of hedging instrument £m	Carrying amount of hedging instrument		Changes in fair value used for calculating hedge ineffectiveness £m
		Assets £m	Liabilities £m	
2022				
Interest rate risk				
– 10 interest rate swaps	750	–	(28)	181
Foreign exchange risk				
– Cross currency swap	109	59	–	31
2021				
Interest rate risk				
– 10 interest rate swaps	803	–	(209)	88
Foreign exchange risk				
– Cross currency swap	124	28	–	(16)

The cash flows on the interest rate swaps occur quarterly, receiving a floating rate of interest based on SONIA plus a credit adjustment spread of 11.93 basis points, and paying a fixed rate of 4.81% (2021 4.82%). The contract maturity dates match those of the hedged item. No hedge ineffectiveness on the interest rate swaps was recognised in profit or loss in the current or prior period.

The cash flows on the cross currency swap occur quarterly, receiving a floating rate of interest based on US\$ LIBOR and paying a floating rate of interest at SONIA plus a credit adjustment spread of 11.93 basis points in sterling. The ineffectiveness on the cross currency swaps due to foreign currency basis spread was immaterial in both the current and prior period.

The cash flows arising from interest rate swap positions on the same counterparty may be settled as a net position. The cross currency interest rate swap is held under a separate agreement and cash movements for this instrument are settled individually. In the event of default, the interest rate swaps and cross currency swaps with counterparty B may be settled net, as shown below.

The position at 24 September 2022 is as follows.

	Gross position £m	Positions netted in balance sheet £m	Balance sheet position £m	Positions that could be net in balance sheet but are not £m	Overall net exposure £m
Counterparty A – interest rate swaps	(12)	–	(12)	–	(12)
Counterparty B – interest rate swaps	(16)	–	(16)	16	–
Net interest rate swaps	(28)	–	(28)	16	(12)
Counterparty B – cross currency swap liability	(110)	110	–	–	–
Counterparty B – cross currency swap asset	169	(110)	59	(16)	43
Net cross currency swap	59	–	59	(16)	43
Total	31		31	–	31

The position at 25 September 2021 is as follows.

	Gross position £m	Positions netted in balance sheet £m	Balance sheet position £m	Positions that could be net in balance sheet but are not £m	Overall net exposure £m
Counterparty A – interest rate swaps	(86)	–	(86)	–	(86)
Counterparty B – interest rate swaps	(123)	–	(123)	28	(95)
Net interest rate swaps	(209)	–	(209)	28	(181)
Counterparty B – cross currency swap liability	(125)	125	–	–	–
Counterparty B – cross currency swap asset	153	(125)	28	(28)	–
Net cross currency swap	28	–	28	(28)	–
Total	(181)	–	(181)	–	(181)

Share options

During a prior period, a put and call option agreement was entered into, which allows the Company to acquire the remaining 60% share capital of the associate, 3Sixty Restaurants Limited, at any point in time after three years from the initial purchase date. The initial 40% investment was purchased on 1 August 2018 for £4m (see note 3.6). The current shareholders also have the ability under the option to sell the remaining 60% to the Company, subject to a number of conditions. During the prior period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option was extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 24 September 2022 is £1m (2021 £1m). This is recognised as a financial asset through FVTPL.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 24 September 2022 and may be subject to material movements in the period subsequent to the balance sheet date. The fair values of the derivative financial instruments are reflected on the balance sheet as follows:

	Derivative financial instruments – fair value				Total £m
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	
Derivatives at fair value designated in cash flow hedges:					
– Interest rate swaps	–	–	–	(28)	(28)
– Cross currency swap	55	4	–	–	59
Share options at FVTPL	1	–	–	–	1
24 September 2022	56	4	–	(28)	32
25 September 2021	29	–	(37)	(172)	(180)

Reconciliation of movements in derivative values

The tables below detail changes in the Group's derivatives, including both cash and non-cash changes where appropriate. Changes in the Group's borrowings are disclosed in the net debt reconciliation in note 4.1.

Movements in derivative values for the 52 weeks ended 24 September 2022 are represented by:

	At 25 September 2021 £m	Cash movements £m	Fair value movements £m	At 24 September 2022 £m
Cash flow hedges	(181)	33	179	31
Share options	1	–	–	1
Total derivatives	(180)	33	179	32

Movements in derivative values for the 52 weeks ended 25 September 2021 are represented by:

	At 26 September 2020 £m	Cash movements £m	Fair value movements £m	At 25 September 2021 £m
Cash flow hedges	(253)	40	32	(181)
Share options	1	–	–	1
Total derivatives	(252)	40	32	(180)

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

Fair value of financial assets and liabilities

The fair value and carrying value of financial assets and liabilities by category is as follows:

	2022		2021	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	207	207	252	252
– Trade receivables	13	13	9	9
– Other receivables	16	16	12	12
– Other financial assets	21	21	–	–
– Defined benefit pension blocked account	9	9		
– Finance lease receivables	13	13	15	15
	279	279	288	288
Financial assets – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	59	59	28	28
– Share options	1	1	1	1
	60	60	29	29
Financial liabilities at amortised cost:				
– Borrowings (note 4.1)	(1,464)	(1,180)	(1,550)	(1,516)
– Lease liabilities	(481)	(481)	(513)	(513)
– Trade payables	(106)	(106)	(80)	(80)
– Accrued charges	(151)	(151)	(149)	(149)
– Other payables	(20)	(20)	(21)	(21)
– Other financial liabilities	(21)	(21)	–	–
	(2,243)	(1,959)	(2,313)	(2,279)
Financial liabilities – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	(28)	(28)	(209)	(209)

Borrowings have been valued as Level 1 financial instruments, as the various tranches of the securitised debt have been valued using period end quoted offer prices. As the securitised debt is traded on an active market, the market value represents the fair value of this debt. The fair value of interest rate and currency swaps is the estimated amount which the Group could expect to pay or receive on termination of the agreements. Other financial assets and liabilities are either short-term in nature or their book values approximate to fair values.

Fair value of derivative financial instruments

The fair value of the Group's derivative financial instruments is calculated by discounting the expected future cash flows of each instrument at an appropriate discount rate to a 'mark to market' position and then adjusting this to reflect any non-performance risk associated with the counterparties to the instrument.

IFRS 13 Financial Instruments requires the Group's derivative financial instruments to be disclosed at fair value and categorised in three levels according to the inputs used in the calculation of their fair value:

- Level 1 instruments use quoted prices as the input to fair value calculations;
- Level 2 instruments use inputs, other than quoted prices, that are observable either directly or indirectly;
- Level 3 instruments use inputs that are unobservable.

The table below sets out the valuation basis of derivative financial instruments held at fair value by the Group:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value at 24 September 2022				
Financial assets:				
Currency swaps	–	59	–	59
Share options (see note 3.6)	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(28)	–	(28)
	–	31	1	32
Fair value at 25 September 2021				
Financial assets:				
Currency swaps	–	28	–	28
Share options (see note 3.6)	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(209)	–	(209)
	–	(181)	1	(180)

4.4 Net debt

Accounting policies

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and other short-term highly liquid deposits with an original maturity at acquisition of three months or less. Cash held on deposit with an original maturity at acquisition of more than three months is disclosed as other cash deposits. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Net debt

Net debt comprises cash and cash equivalents, cash deposits net of borrowings and discounted lease liabilities. Net debt is presented on a constant currency basis, due to the inclusion of the fixed exchange rate component of the cross currency swap (as described in note 4.3). Cash flows on the interest rate and cross currency swaps are shown within interest paid in the Group cash flow statement.

Net debt

	Note	2022 £m	2021 £m
Cash and cash equivalents		207	252
Overdraft	4.1	(17)	(25)
Cash and cash equivalents as presented in the cash flow statement ^a		190	227
Securitised debt	4.1	(1,447)	(1,526)
Unsecured revolving credit facility	4.1	–	1
Derivatives hedging securitised debt ^b	4.1	59	28
Net debt excluding leases		(1,198)	(1,270)
Lease liabilities	3.2	(481)	(513)
Net debt including leases		(1,679)	(1,783)

- a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US\$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt excluding leases

	2022 52 weeks £m	2021 52 weeks £m
Net (decrease)/increase in cash and cash equivalents	(39)	70
Add back cash flows in respect of other components of net debt:		
Principal repayments on securitised debt	115	107
Principal receipts on cross currency swap	(20)	(17)
Principal payments on cross currency swap	15	14
Repayment of term loan (note 4.1)	–	100
Repayment of unsecured revolving credit facilities	–	10
Repayment of liquidity facility	–	9
Decrease in net debt arising from cash flows	71	293
Movement in capitalised debt issue costs net of accrued interest	(1)	1
Decrease in net debt excluding leases	70	294
Opening net debt excluding leases	(1,270)	(1,563)
Foreign exchange movements on cash	2	(1)
Closing net debt excluding leases	(1,198)	(1,270)

Section 4 – Capital structure and financing costs continued

4.4 Net debt continued

Movement in lease liabilities:

	2022 52 weeks £m	2021 52 weeks £m
Opening lease liabilities	(513)	(541)
Additions ^a	(25)	(22)
Covid-19 rent concessions ^b	–	2
Interest charged during the period (note 4.2)	(16)	(17)
Repayment of principal	48	41
Payment of interest	16	21
Disposals	11	1
Foreign currency movements	(2)	2
Closing lease liabilities	(481)	(513)

a. Additions to lease liabilities include new leases and lease extensions or rent reviews relating to existing leases.

b. During the prior period, the Group has reached agreement with a number of landlords to waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19.

The movement in net debt including leases for the 52 weeks ended 24 September 2022 is represented by:

	At 25 September 2021 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 24 September 2022 £m
Securitised debt	(1,526)	115	–	(36)	(1,447)
Derivatives hedging securitised debt	28	(5)	–	36	59
	(1,498)	110	–	–	(1,388)
Revolving credit facilities	1	–	(1)	–	–
Lease liabilities ^a	(513)	64	(30)	(2)	(481)
Total liabilities arising from financing activities	(2,010)	174	(31)	(2)	(1,869)
Cash and cash equivalents	227	(39)	–	2	190
Net debt including leases	(1,783)	135	(31)	–	(1,679)

a. Cash movements of £64m relate to £48m repayment of principal on lease liabilities and £16m of interest paid on lease liabilities.

The movement in net debt including leases for the 52 weeks ended 25 September 2021 is represented by:

	At 26 September 2020 £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 25 September 2021 £m
Securitised debt	(1,646)	107	–	13	(1,526)
Derivatives hedging securitised debt	44	(3)	–	(13)	28
	(1,602)	104	–	–	(1,498)
Liquidity facility	(9)	9	–	–	–
Term loan	(100)	100	–	–	–
Revolving credit facilities	(10)	11	–	–	1
Lease liabilities ^a	(541)	62	(36)	2	(513)
Total liabilities arising from financing activities	(2,262)	286	(36)	2	(2,010)
Cash and cash equivalents	158	70	–	(1)	227
Net debt including leases	(2,104)	356	(36)	1	(1,783)

a. Cash movements of £62m relate to £41m repayment of principal on lease liabilities and £21m of interest paid on lease liabilities.

4.5 Pensions

Accounting policy

Retirement and death benefits are provided for eligible employees in the United Kingdom principally by the Mitchells & Butlers Pension Plan (MABPP) and the Mitchells & Butlers Executive Pension Plan (MABEPP). These plans are funded, HMRC approved, occupational pension schemes with defined contribution and defined benefit sections. The defined benefit section of the plans is now closed to future service accrual. The defined benefit liabilities relates to these funded plans, together with an unfunded unapproved pension arrangement (the Executive Top-Up Scheme, or MABETUS) in respect of certain MABEPP members. The assets of the plans are held in self-administered trust funds separate from the Company's assets.

The plans operate under the UK regulatory framework and are governed by Trustee Boards composed of member-nominated and independent Trustee Directors. The Trustee Directors make investment decisions and set the required contribution rates based on independent actuarial advice and consultation with the Company.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrolls all eligible workers into a Qualifying Workplace Pension Plan.

As the Company does not have an unconditional right to recover any surplus from the pension plans, IFRIC 14 requires the minimum funding liability to be recognised, where it is in excess of the actuarial liabilities. As such, the total pension liabilities recognised in the balance sheet in respect of the Group's defined benefit arrangements is the greater of the minimum funding requirements, calculated as the present value of the agreed schedule of contributions, and the actuarial calculated liabilities. Actuarial liabilities are the present value of the defined benefit obligation, less the fair value of the schemes' assets. The cost of providing benefits is determined using the projected unit credit method as determined annually by qualified actuaries. This is based on a number of financial assumptions and estimates, the determination of which may be significant to the balance sheet valuation in the event that this reflects a greater deficit than that suggested by the schedule of minimum contributions.

There is no current service cost as all defined benefit schemes are closed to future accrual. The net pension finance charge, calculated by applying the discount rate to the pension deficit or surplus at the beginning of the period, is shown within finance income or expense. The administration costs of the schemes are recognised within operating costs in the income statement.

Remeasurement comprising actuarial gains and losses, the effect of minimum funding requirements, and the return on schemes' assets are recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which they occur.

Curtailments and settlements relating to the Group's defined benefit plans are recognised in the income statement in the period in which the curtailment or settlement occurs.

For the defined contribution arrangements, the charge against profit is equal to the amount of contributions payable for that period.

Accounting judgements

The calculation of the defined benefit liabilities requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities.

In addition, management has used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. Details of this are given below.

Other sources of estimation uncertainty

The calculation of the defined benefit liabilities requires three key sources of estimation uncertainty in calculating the value in use: the selection of an appropriate discount rate; the selection of an appropriate inflation rate; and the selection of appropriate mortality assumptions.

A sensitivity of changes in the discount rate, the inflation rate and the mortality assumptions is provided on page 162.

Measurement of scheme assets and liabilities

MABEPP – buy-in policy transaction

During the period, the Trustees of the MABEPP entered a Bulk Purchase Agreement (BPA) with Legal and General Assurance Society Limited. The resulting policy is set up to provide the plan with sufficient funding to cover all known member benefits of the scheme.

The difference between the buy-in purchase price and the defined benefit obligation covered by the policy has been accounted for in other comprehensive income. The accounting treatment is based on the following considerations made by the Company:

- the employer is not relieved of primary responsibility for the obligation. The policy simply covers the benefit payments that continue to be payable by the scheme;
- the contract is effectively an investment of the scheme; and
- the contract provides the option to convert the annuity into individual policies, which would transfer the obligation to the insurer (known as a 'buy-out'). Whilst this course of action may be considered in future, this is not a requirement and a separate decision will be required before any buy-out proceeds.

Following on from the transaction, the remaining scheduled contribution payments for the MABEPP are being paid into a 'Blocked Account' from which the funds may be used by the Trustee or may be returned to the Company. As a result the payments are no longer recognised as a minimum funding requirement and any balance in the Blocked Account has been recognised within other receivables (see note 3.3). The amount recognised as at 24 September 2022 is £9m.

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

Actuarial valuation

The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' independent qualified actuaries to 25 September 2021. Schemes' assets are stated at market value at 25 September 2021 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the schemes' liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	2022		2021	
	Main plan	Executive plan	Main plan	Executive plan
Discount rate	5.3%	5.3%	1.9%	1.9%
Pensions increases – RPI max 5%	3.2%	3.2%	3.3%	3.3%
Inflation rate – RPI	3.5%	3.5%	3.5%	3.5%

The discount rate is based on a yield curve for AA corporate rated bonds which are consistent with the currency and estimated term of retirement benefit liabilities.

To determine the RPI assumption the gilt implied inflation yield curve has been used, reflecting the duration of the Plan's cash flows, and adjusting for an assumed inflation risk premium.

The mortality assumptions were reviewed following the 2019 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2022		2021	
	Main plan years	Executive plan years	Main plan years	Executive plan years
Male member aged 65 (current life expectancy)	20.9	23.4	20.9	23.4
Male member aged 45 (life expectancy at 65)	22.7	24.5	22.7	24.5
Female member aged 65 (current life expectancy)	23.2	24.3	23.2	24.3
Female member aged 45 (life expectancy at 65)	25.3	26.3	25.3	26.3

Minimum funding requirements

The results of the 2019 actuarial valuation showed a funding deficit of £293m, using a more prudent basis to discount the scheme liabilities than is required by IAS 19 (revised). As a result of the 2019 actuarial valuation, the Company has subsequently agreed recovery plans for both the Executive and Main schemes in order to close the funding deficit in respect of its pension liabilities. The recovery plans show an unchanged level of cash contributions with no extension to the agreed payment term (£45m per annum indexed with RPI from 1 April 2016 subject to a minimum increase of 0% and maximum of 5%, until 31 March 2023). In the prior period, given the outbreak of the Covid-19 pandemic and the enforced temporary closure of the business at the end of March 2020, the Company agreed with the Trustee that contributions would be suspended for the months of April to September 2020, with these being added onto the end of the agreed recovery plan so that these contributions will be paid during the second half of FY 2023.

This agreement is subject to review following completion of the current ongoing actuarial valuation which commenced in March 2022 and is expected shortly.

Under IFRIC 14, additional liabilities are recognised, such that the overall pension liabilities at the period end reflects the schedule of contributions in relation to the minimum funding requirements, should this be higher than the actuarial deficit. As set out above, following the BPA transaction, contributions for the MABEPP are being paid into the Blocked Account and are therefore no longer recognised as a minimum funding requirement. The additional liability recognised at 24 September 2022 relates only to the MABPP.

The employer contributions expected to be paid during the financial period ending 30 September 2023 amount to £42m.

In 2024, an additional payment of £13m will be made into escrow, should such further funding be required at that time. This is a contingent liability and is not reflected in the pensions liabilities as it is not committed.

Sensitivity to changes in actuarial assumptions

The sensitivities regarding principal actuarial assumptions, assessed in isolation, that have been used to measure the scheme liabilities are set out below. These are considered to be reasonable sensitivities based on the average movement over the last three financial periods. There was no change in the methods and assumptions used in preparing the sensitivity analysis from the prior period.

	Increase/ (decrease) in actuarial surplus 2022 £m	Decrease/ (increase) in total pension liabilities 2022 £m
2022		
1.9% increase in discount rate	250	5
0.3% increase in inflation rate	(53)	(1)
Additional one-year decrease to life expectancy	44	1

2021	Increase/ (decrease) in actuarial surplus 2021 £m	Decrease/ (increase) in total pension liabilities 2021 £m
0.3% increase in discount rate	127	2
0.4% increase in inflation rate	(136)	(2)
Additional one-year decrease to life expectancy	93	2

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. In presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liabilities recognised in the statement of financial position.

Principal risks and assumptions

The defined benefit schemes are not exposed to any unusual, entity specific or scheme specific risks but there are general risks:

Inflation – The majority of the plans' obligations are linked to inflation. Higher inflation will lead to increased liabilities which is partially offset by the plans holding inflation linked gilts and other inflation linked assets.

Interest rate – The plans' liabilities are determined using discount rates derived from yields on AA-rated corporate bonds. A decrease in corporate bond yields will increase plan liabilities though this will be partially offset by an increase in the value of the bonds held by the plans.

Mortality – The majority of the plans' obligations are to provide benefits for the life of the members and their partners, so any increase in life expectancy will result in an increase in the plans' liabilities.

Asset returns – Assets held by the pension plans are invested in a diversified portfolio of equities, bonds and other assets. Volatility in asset values will lead to movements in the net deficit/surplus reported in the Group balance sheet for the plans which in addition will also impact the pension finance charge in the Group income statement.

Amounts recognised in respect of defined benefit schemes

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

	2022 52 weeks £m	2021 52 weeks £m
Group income statement		
Operating profit:		
Employer contributions (defined contribution plans) (note 2.3)	(16)	(13)
Administrative costs (defined benefit plans)	(4)	(5)
Charge to operating profit before separately disclosed items	(20)	(18)
Past service cost (note 2.2)	–	(3)
Charge to operating profit	(20)	(21)
Finance costs:		
Net pensions finance income on actuarial surplus	8	5
Additional pensions finance charge due to minimum funding	(10)	(8)
Net finance charge in respect of pensions	(2)	(3)
Total charge	(22)	(24)
Group statement of comprehensive income		
Return on scheme assets and effects of changes in assumptions	(161)	19
Movement in pension liabilities recognised due to minimum funding	202	(10)
Remeasurement of pension liabilities	41	9
Group balance sheet		
Fair value of schemes' assets	1,699	2,808
Present value of schemes' liabilities	(1,442)	(2,438)
Actuarial surplus in the schemes	257	370
Additional liabilities recognised due to minimum funding	(321)	(513)
Total pension liabilities ^a	(64)	(143)
Associated deferred tax asset (note 2.4)	14	31

a. The total pension liabilities of £64m (2021 £143m) is presented as a £42m current liability (2021 £51m) and a £22m non-current liability (2021 £92m).

Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

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

	Schemes' assets	
	2022 £m	2021 £m
Fair value of schemes' assets at beginning of period	2,808	2,736
Interest income	53	44
Remeasurement (loss)/gain:		
– Return on schemes' assets (excluding amounts included in net finance charge)	(1,119)	67
Additional employer contributions	44	52
Benefits paid	(83)	(86)
Administration costs	(4)	(5)
At end of period	1,699	2,808

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

	Defined benefit obligation	
	2022 £m	2021 £m
Present value of defined benefit obligation at beginning of period	(2,438)	(2,434)
Interest cost	(45)	(39)
Past service cost	–	(3)
Benefits paid	83	86
Remeasurement losses:		
– Effect of changes in financial assumptions	1,024	(62)
– Effect of experience adjustments	(66)	14
At end of period^a	(1,442)	(2,438)

a. The defined benefit obligation comprises £23m (2021 £39m) relating to the MABETUS unfunded plan and £1,419m (2021 £2,399m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 14 years (2021 19 years).

The major categories and fair values of assets of the MABPP and MABEPP schemes at the end of the reporting period are as follows:

	2022 £m	2021 £m
Cash and equivalents	175	118
Equity instruments	–	271
Debt instruments:		
– Bonds	1,321	2,473
– Real estate debt	30	50
– Infrastructure debt	92	134
– Secured income debt	360	384
– Absolute return bond funds	–	265
– Gilt repurchase transactions	(574)	(906)
Gold	–	6
Forward foreign exchange contracts	(1)	13
MABEPP insurance policy	296	–
Fair value of assets	1,699	2,808

The actual investment return achieved on schemes' assets over the period was a loss of 38.0% (2021 gain of 4.1%), which represented a loss of £1,063m (2021 gain of £112m).

Virtually all equity instruments, bonds and gold have quoted prices in active markets and are classified as Level 1 instruments. Absolute return bond funds, gilt repurchase transactions and forward foreign exchange contracts are classified as Level 2 instruments. Real estate debt, infrastructure debt and secured income debt are classified as Level 3 instruments.

In the 52 weeks ended 24 September 2022 the Group paid £16m (2021 £13m) in respect of the defined contribution arrangements, with an additional £3m (2021 £3m) outstanding as at the period end.

At 24 September 2022 the MABPP owed £nil (2021 £nil) to the Group in respect of expenses paid on its behalf. This amount is included in other receivables in note 3.2.

4.6 Share-based payments

Accounting policy

The Group operates a number of equity-settled share-based compensation plans, whereby, subject to meeting any relevant conditions, employees are awarded shares or rights over shares. The cost of such awards is measured at fair value, excluding the effect of non market-based vesting conditions, on the date of grant. The expense is recognised on a straight-line basis over the vesting period and is adjusted for the estimated effect of non market-based vesting conditions and forfeitures, on the number of shares that will eventually vest due to employees leaving the employment of the Group. Fair values are calculated using either the Black-Scholes, Binomial or Monte Carlo simulation models depending on the conditions attached to the particular share scheme.

Sharesave plan options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in an accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

Schemes in operation

The net charge recognised for share-based payments in the period was £4m (2021 £3m).

The Group had five equity-settled share schemes (2021 five) in operation during the period: the Restricted Share Plan (RSP); the Performance Restricted Share Plan (PRSP); Sharesave Plan; Share Incentive Plan (SIP) and Short Term Deferred Incentive Plan (STDIP).

The vesting of all awards or options is generally dependent upon participants remaining in the employment of a participating company during the vesting period. Further details on each scheme are provided in the Report on Directors' remuneration on pages 89 to 106.

The fair value of awards under the Restricted Share Plan, the Share Incentive Plan and the Short Term Deferred Incentive Plan are equal to the share price on the date they are granted as there is no price to be paid and employees are entitled to Dividend Accrued Shares to the value of ordinary dividends paid or payable during the vesting period. There were no awards under the Short Term Deferred Incentive Plan in the current or prior periods. The fair value of options granted under these schemes is shown below.

Fair value of options granted

	2022	2021
Share Incentive Plan	206.4p	285.8p
Restricted Share Plan	244.4p	313.6p

The following table sets out weighted average information about how the fair value of the Sharesave Plan option grants were calculated.

Valuation model	2022	2021
	Sharesave Plan	Sharesave Plan
	Black-Scholes	Black-Scholes
Weighted average share price	206.4p	285.8p
Exercise price	199.0p	256.0p
Expected dividend yield	–	–
Risk-free interest rate	2.32%	0.32%
Volatility ^a	41.9%	41.9%
Expected life (years) ^b	4.1	4.1
Weighted average fair value of grants during the period	76.5p	105.7p

a. The expected volatility is determined by calculating the historical volatility of the Company's share price commensurate with the expected term of the options and share awards.

b. The expected life of the options represents the average length of time between grant date and exercise date.

Scheme movements in the period

The tables below summarise the movements in outstanding options during the period for each scheme.

	Number of shares		Weighted average exercise price	
	2022	2021	2022	2021
Sharesave Plan	m	m	p	p
Outstanding at the beginning of the period	5.4	3.4	238.3	239.9
Adjustment for Open Offer	–	0.3	–	216.6
Granted	2.2	2.9	199.0	256.0
Exercised	(0.3)	(0.2)	224.4	200.8
Forfeited	(1.2)	(0.5)	243.9	222.6
Expired	(0.4)	(0.5)	225.9	210.3
Outstanding at the end of the period	5.7	5.4	223.5	238.3
Exercisable at the end of the period	–	–	–	–

The outstanding options for the sharesave plan scheme had an exercise price of between 199.0p and 256.0p (2021 between 199.4p and 256.0p) and the weighted average remaining contract life was 2.9 years (2021 2.9 years). The number of forfeited shares in the period includes 726,485 (2021 353,133) cancellations.

Sharesave plan options were exercised on a range of dates. The average share price through the period was 218.7p (2021 268.0p).

Section 4 – Capital structure and financing costs continued

4.6 Share-based payments continued

	Number of shares	
	2022 m	2021 m
Share Incentive Plan		
Outstanding at the beginning of the period	1.9	1.8
Granted	0.4	0.3
Exercised	(0.2)	(0.2)
Outstanding at the end of the period	2.1	1.9
Exercisable at the end of the period	1.3	1.5

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares	
	2022 m	2021 m
Restricted Share Plan		
Outstanding at the beginning of the period	1.0	–
Granted	1.4	1.0
Outstanding at the end of the period	2.4	1.0
Exercisable at the end of the period	–	–

The weighted average remaining contract life of the RSP options was 1.8 years (2021 2.2 years).

	Number of shares	
	2022 m	2021 m
Performance Restricted Share Plan		
Outstanding at the beginning of the period	3.6	5.6
Adjustment for Open Offer	–	0.4
Exercised	–	(0.1)
Forfeited	–	(0.2)
Expired	(1.8)	(2.1)
Outstanding at the end of the period	1.8	3.6
Exercisable at the end of the period	–	–

The weighted average remaining contract life of the PRSP options was 0.1 years (2021 2.6 years).

4.7 Equity

Accounting policies

Own shares

The cost of own shares held in employee share trusts and in treasury are deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, the fair value of any consideration received is also included in shareholders' equity.

Dividends

Dividends proposed by the Board but unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

Scrip dividends are fully paid up from the share premium account. They are accounted for as an increase in share capital for the nominal value of the shares issued, and a resulting reduction in share premium.

	2022		2021	
	Number of shares	£m	Number of shares	£m
Called up share capital				
Allotted, called up and fully paid				
Ordinary shares of 8 ¹³ / ₂₄ p each				
At start of period	596,618,849	51	429,201,117	37
Share capital issued ^a	764,514	–	480,126	–
Open Offer issued ^b	–	–	166,937,606	14
At end of period	597,383,363	51	596,618,849	51

a. During the period, the Company issued 764,514 (2021 480,126) shares at nominal value under share option schemes, for consideration of £65,302 (2021 £41,011).

b. On 12 March 2021, the Group completed a fully underwritten Open Offer share issue to existing shareholders on the basis of 7 shares for every 18 fully paid ordinary shares held. As a result, a total of 166,937,606 ordinary shares with an aggregate nominal value of £14m were issued for cash consideration of £351m. Transaction costs of £9m were incurred which were directly attributable to the issuance of the new shares, resulting in £328m being recognised in share premium and net cash proceeds of £342m.

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Details of options granted under the Group's share schemes are contained in note 4.6.

Dividends

There were no dividends declared or paid during the current period.

Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £1m (2021 £328m) has been recognised on shares issued in the period.

Capital redemption reserve

The capital redemption reserve movement arose on the repurchase and cancellation by the Company of ordinary shares during prior periods.

Revaluation reserve

The revaluation reserve represents the unrealised gain generated on revaluation of the property estate with effect from 29 September 2007. It comprises the excess of the fair value of the estate over deemed cost, net of related deferred taxation.

Own shares held

Own shares held by the Group represent the shares in the Company held by the employee share trusts.

During the period, the employee share trusts acquired 1,000,000 shares at a cost of £2m (2021 277,144 shares at a cost of £1m) and subscribed for 440,652 shares (2021 258,915) at a cost of £nil (2021 £nil). The employee share trusts released 261,839 (2021 355,632) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2021 £nil). The 3,846,671 shares held by the trusts at 24 September 2022 had a market value of £6m (2021 2,667,858 shares held had a market value of £7m).

The Company has established two employee share trusts:

Share Incentive Plan (SIP) Trust

The SIP Trust was established in 2003 to purchase shares on behalf of employees participating in the Company's Share Incentive Plan. Under this scheme, eligible employees are awarded free shares which are normally held in trust for a holding period of at least three years. After three years, the shares may be transferred or sold by the employee but would be subject to income tax and National Insurance contributions. After five years the shares may be transferred to or sold by the employee free of income tax and National Insurance contributions. The SIP Trust buys the shares in the market or subscribes for newly issued shares with funds provided by the Company. During the holding period, dividends are paid directly to the participating employees. At 24 September 2022, the trustees, Equiniti Share Plan Trustees Limited, held 2,091,712 (2021 1,853,883) shares in the Company. Of these shares, 1,289,854 (2021 1,214,064) shares are available to employees, 756,585 (2021 618,682) shares have been awarded to employees but are still required to be held within the SIP Trust until the three year holding period has expired, and the remaining 45,273 (2021 21,137) shares are unallocated.

Employee Benefit Trust (EBT)

The EBT was established in 2003 in order to satisfy the exercise or vesting of existing and future share options and awards under the Restricted Share Plan, Performance Restricted Share Plan, Short Term Deferred Incentive Plan and the Sharesave Plan. The EBT purchases shares in the market or subscribes for newly issued shares, using funds provided by the Company, based on expectations of future requirements. Dividends are waived by the EBT. At 24 September 2022, the trustees, Sanne Fiduciary Services Limited, were holding 1,754,959 (2021 813,975) shares in the Company.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged future cash flows.

Translation reserve

The translation reserve is used to record exchange differences arising from the translation of the consolidated financial statements of foreign subsidiaries.

Retained earnings

The Group's main operating subsidiary, Mitchells & Butlers Retail Limited, had retained earnings under FRS 101 of £2,207m at 24 September 2022 (2021 £2,203m). Its ability to distribute these reserves by way of dividends is restricted by the securitisation covenants (see note 4.1).

Section 5 – Other notes

5.1 Related party transactions

Key management personnel

Employees of the Mitchells & Butlers plc Group who are members of the Board of Directors or the Executive Committee of Mitchells & Butlers plc are deemed to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group.

Compensation of key management personnel of the Group:

	2022 52 weeks £m	2021 52 weeks £m
Short-term employee benefits	4	3

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration on pages 89 to 106.

Associate companies

During the period, the Group has held a number of property lease agreements with its associate companies, 3Sixty Restaurants Limited and Fatboy Pub Company Limited.

The Group has entered into the following transactions with the associates:

	3Sixty Restaurants Limited		Fatboy Pub Company Limited	
	2022 52 weeks £000	2021 52 weeks £000	2022 52 weeks £000	2021 52 weeks £000
Rent charged	1,180	666	60	37
Sales of goods and services	782	447	4	5
	1,962	1,113	64	42

The balance due from 3Sixty Restaurants Limited at 24 September 2022 was £351,600 (2021 £691,000).

The balance due from Fatboy Pub Company at 24 September 2022 was £nil (2021 £57,000), net of a provision of £179,000 (2021 £179,000).

5.2 Subsidiaries and associates

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation.

Mitchells & Butlers plc is the ultimate controlling party and the beneficial owner of all of the equity share capital, either itself or through subsidiary undertakings, of the following companies:

Name of subsidiary	Country of incorporation	Registration Number	Nature of business
Principal operating subsidiaries			
Mitchells & Butlers Retail Limited	England and Wales	00024542	Leisure retailing
Mitchells & Butlers Retail (No. 2) Limited	England and Wales	03959664	Leisure retailing
Ha Ha Bar & Grill Limited	England and Wales	06295359	Leisure retailing
Orchid Pubs & Dining Limited	England and Wales	06754332	Leisure retailing
ALEX Gaststätten Gesellschaft mbH & Co KG	Germany		Leisure retailing
Midco 1 Limited	England and Wales	05835640	Property leasing company
Mitchells & Butlers Leisure Retail Limited	England and Wales	01001181	Service company
Mitchells & Butlers Germany GmbH ^a	Germany		Service company
Mitchells & Butlers Finance plc	England and Wales	04778667	Finance company
Other subsidiaries			
Mitchells & Butlers (Property) Limited ^b	England and Wales	01299745	Property management
Standard Commercial Property Developments Limited ^b	England and Wales	00056525	Property development
Mitchells & Butlers Holdings (No.2) Limited ^{a,b}	England and Wales	06475790	Holding company
Mitchells & Butlers Holdings Limited ^b	England and Wales	03420338	Holding company
Mitchells & Butlers Leisure Holdings Limited ^b	England and Wales	02608173	Holding company
Mitchells & Butlers Retail Holdings Limited	England and Wales	04887979	Holding company
Old Kentucky Restaurants Limited	England and Wales	00465905	Trademark ownership
Mitchells & Butlers (IP) Limited ^b	England and Wales	04885717	Dormant
Mitchells & Butlers Acquisition Company	England and Wales	05879733	Dormant
Mitchells & Butlers Retail Property Limited ^{a,b}	England and Wales	06301758	Non-trading
Mitchells and Butlers Healthcare Trustee Limited ^b	England and Wales	04659443	Healthcare trustee
ALEX Gaststätten Immobiliengesellschaft mbH ^c	Germany		Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH ^c	Germany		Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG ^c	Germany		Property management
ALEX Alsterpavillon Management GmbH ^c	Germany		Management company
ALEX Gaststätten Management GmbH ^c	Germany		Management company
Miller & Carter Gaststätten Betriebsgesellschaft mbH ^c	Germany		Leisure retailing
Browns Restaurant (Brighton) Limited ^d	England and Wales	01564302	Dormant
Browns Restaurant (Bristol) Limited ^d	England and Wales	02351724	Dormant
Browns Restaurant (Cambridge) Limited ^d	England and Wales	01237917	Dormant
Browns Restaurant (London) Limited ^d	England and Wales	00291996	Dormant
Browns Restaurant (Oxford) Limited ^d	England and Wales	01730727	Dormant
Browns Restaurants Limited ^d	England and Wales	01001320	Dormant
Lander & Cook Limited ^d	England and Wales	11160005	Dormant

a. Shares held directly by Mitchells & Butlers plc.

b. These companies are exempt from the requirement to prepare individual audited financial statements in respect of the 52 week period ended 24 September 2022 by virtue of sections 479A and 479C of the Companies Act 2006.

c. The German subsidiary companies are consolidated on the basis of their reporting period, being the year ending 30 September 2022 (2021 30 September 2021).

d. These companies are exempt from the requirement to prepare and file individual financial statements in respect of the 52 week period ended 24 September 2022 by virtue of sections 394A and 448A of the Companies Act 2006.

All companies registered in England and Wales operate within the United Kingdom. The registered office for these companies is 27 Fleet Street, Birmingham, B3 1JP.

All companies registered in Germany operate solely within Germany. The registered office for these companies is Adolfstrasse 16, 65185 Wiesbaden.

Section 5 – Other notes continued

5.2 Subsidiaries and associates continued

Associates

Details of the Company's associates, held indirectly, are as follows. Shares in these associates were acquired in the prior period.

Name of associate	Registered office	Country of incorporation and operation	Country of operation	Nature of business	Proportion of ownership interest %	Proportion of voting power interest %
3Sixty Restaurants Limited	1st Floor St Georges House, St Georges Road, Bolton, BL1 2DD	England and Wales	United Kingdom	Leisure retailing	40	40
Fatboy Pub Company Limited	Ampney House, Falcon Close, Quedgeley, Gloucester, GL2 4LS	England and Wales	United Kingdom	Leisure retailing	25	25

5.3 Five year review

	2022 52 weeks £m	2021 52 weeks £m	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m
Revenue	2,208	1,065	1,475	2,237	2,152
Operating profit before separately disclosed items	240	29	99	317	303
Separately disclosed items	(116)	52	(91)	(20)	(48)
Operating profit	124	81	8	297	255
Finance costs	(115)	(122)	(128)	(114)	(119)
Finance income	1	2	1	1	1
Net pensions finance charge	(2)	(3)	(4)	(7)	(7)
Profit/(loss) before taxation	8	(42)	(123)	177	130
Tax credit/(charge)	5	(23)	11	(34)	(26)
Profit/(loss) for the period	13	(65)	(112)	143	104

Mitchells & Butlers plc Company financial statements

Company balance sheet

24 September 2022

	Notes	2022 £m	2021 £m
Non-current assets			
Investments in subsidiaries	5	1,866	1,616
Amounts owed by subsidiary undertakings	6	381	380
Deferred tax asset	9	19	36
		2,266	2,032
Current assets			
Trade and other receivables	6	176	170
Cash and cash equivalents		76	115
		252	285
Current liabilities			
Pension liabilities	4	(42)	(51)
Borrowings	8	(17)	(25)
Trade and other payables	7	(287)	(284)
		(346)	(360)
Non-current liabilities			
Pension liabilities	4	(22)	(92)
Net assets		2,150	1,865
Equity			
Called up share capital	10	51	51
Share premium account	10	357	356
Capital redemption reserve		3	3
Own shares held	10	(5)	(3)
Retained earnings		1,744	1,458
Total equity		2,150	1,865

The Company reported a profit for the 52 weeks ended 24 September 2022 of £250m (52 weeks ended 25 September 2021 £106m).

The Company financial statements were approved by the Board and authorised for issue on 6 December 2022.

They were signed on its behalf by:

Tim Jones

Chief Financial Officer

The accounting policies and the notes on pages 173 to 176 form an integral part of these Company financial statements.

Registered Number: 04551498

Company statement of changes in equity

For the 52 weeks ended 24 September 2022

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 26 September 2020	37	28	3	(3)	1,529	1,594
Loss after taxation	–	–	–	–	(106)	(106)
Remeasurement of pension liability	–	–	–	–	9	9
Deferred tax on remeasurement of pension liability and rate change of pension liability	–	–	–	–	24	24
Total comprehensive expense	–	–	–	–	(73)	(73)
Share capital issued	14	328	–	–	–	342
Purchase of own shares	–	–	–	(1)	–	(1)
Release of own shares	–	–	–	1	(1)	–
Credit in respect of employee share schemes	–	–	–	–	3	3
At 25 September 2021	51	356	3	(3)	1,458	1,865
Profit after taxation	–	–	–	–	250	250
Remeasurement of pension liability	–	–	–	–	41	41
Deferred tax on remeasurement of pension liability	–	–	–	–	(9)	(9)
Total comprehensive expense	–	–	–	–	282	282
Share capital issued	–	1	–	–	–	1
Purchase of own shares	–	–	–	(2)	–	(2)
Release of own shares	–	–	–	–	–	–
Credit in respect of employee share schemes	–	–	–	–	4	4
At 24 September 2022	51	357	3	(5)	1,744	2,150

Details of each reserve are provided in note 4.7 to the consolidated financial statements.

Notes to the Mitchells & Butlers plc Company financial statements

1. Basis of preparation

Basis of accounting

These Company financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' as issued by the FRC.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to IFRS 2 Share-based Payments, requirements of IFRS 7 Financial Instruments: Disclosures, presentation of a cash flow statement, IAS 36 Impairment of Assets, standards not yet effective and IAS 24 Related Party Disclosures. Where required, equivalent disclosures are given in the consolidated financial statements.

The Company financial statements have been prepared under the historical cost convention. The Company's accounting policies have been applied on a consistent basis to those set out in the relevant notes to the consolidated financial statements.

Share options and share awards are granted to employees of the Mitchells & Butlers Group, by the Company. The Company accounts for share-based payments, in line with the policy disclosed in note 4.6 of the consolidated financial statements. The Company's income statement charge in respect of share-based payments represents the charge for options of employees of the Company. Other companies within the Group are recharged an amount relating to their employees.

Accounting judgements and sources of estimation uncertainty

The accounting judgements and estimates of the Company are considered alongside those of the Group. The key judgements and sources of estimation uncertainty of the Company are: the selection of the discount rate and inflation rate assumptions used in the calculation of the defined benefit pension liability described in note 4.5 of the consolidated financial statements; the determination of appropriate cash flow forecasts for the investment impairment review described in note 5; and the assessment of expected credit loss on amounts owed by subsidiary undertakings as described in note 6.

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the balance sheet date.

2. Profit and loss account

Profit and loss account

The Company has not presented its own profit and loss account, as permitted by Section 408 of the Companies Act 2006.

The Company recorded a profit after tax of £250m (2021 £106m), less dividends of £nil (2021 £nil).

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2021 £30,000). This is borne by another Group company, as are any other costs relating to non-audit services (see note 2.3 to the consolidated financial statements).

3. Employees and Directors

	2022 52 weeks	2021 52 weeks
Average number of employees, including part-time employees	2	2

Employees of Mitchells & Butlers plc consist of Executive Directors who are considered to be the key management personnel of the Company.

Details of employee benefits and post-employment benefits including share-based payments are included within the Report on Directors' remuneration on pages 89 to 106. The charge recognised for share-based payments in the period is £1m (2021 £nil).

4. Pensions

Accounting policy

The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability

At 24 September 2022 the Company's pension liability was £64m (2021 £143m). Of this amount, £42m (2021 £51m) is a current liability and £22m (2021 £92m) is a non-current liability.

The Company is the sponsoring employer of the Group's pension plans. Information concerning the pension scheme arrangements operated by the Company and associated current and future contributions is contained within note 4.5 to the consolidated financial statements on pages 161 to 164.

The pension amounts and disclosures included in note 4.5 to the consolidated financial statements are equivalent to those applicable for the Company.

5. Investments in subsidiaries

Accounting policy

The Company's investments in Group undertakings are held at cost less provision for impairment. The value of these investments are reviewed annually for impairment by comparing the recoverable amount with carrying value. Recoverable amount is deemed as being either an enterprise value where the subsidiary is a trading entity or net asset value where the subsidiary has no trading assets.

	Investments in subsidiary undertakings £m
Cost	
At 26 September 2020	3,400
Additions ^a	95
At 25 September 2021	3,495
Additions ^a	250
At 24 September 2022	3,745
Provision	
At 26 September 2020	1,879
Impairment	–
At 25 September 2021	1,879
Impairment	–
At 24 September 2022	1,879
Net book value	
At 24 September 2022	1,866
At 25 September 2021	1,616
At 26 September 2020	1,521

a. During the current period the Company subscribed for 1 ordinary share (2021 95 million shares), of £1 nominal value, at a subscription price of £250m each (2021 £1 each) in Mitchells & Butlers Holdings (No.2) Limited.

Mitchells & Butlers plc is the beneficial owner of all of the equity share capital of companies within the Group, either itself or through subsidiary undertakings. In addition, the Company has indirect investments in associate companies through subsidiary undertakings. See note 5.2 of the consolidated financial statements for a full list of subsidiaries and associates.

Impairment review – critical accounting judgements

Investments in trading subsidiaries have been tested for impairment using pre-tax forecast cash flows, discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%) and a long-term growth rate of 2.0% (2021 1.0%). The long-term growth rate is based on up-to-date economic data points and for consistency with the overall Group profit forecast. No further impairment has been recognised as a result of this review in the current or prior period.

For the investment impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 and cost inflation on site profits. Forecasts for cash flows of trading subsidiaries have been based on the overall Group forecast for FY 2023 that was in place at the balance sheet date.

6. Trade and other receivables

	2022 £m	2021 £m
Non-current		
Amounts owed by subsidiary undertakings	381	380
	2022 £m	2021 £m
Current		
Amounts owed by subsidiary undertakings	165	169
Prepayments	2	1
Defined benefit pension blocked account ^a	9	–
	176	170

a. Contributions to the MABEPP scheme have been paid into a blocked account since the scheme buy-in during the period (see note 4.5 for further details).

Amounts owed by subsidiary undertakings are repayable on demand. However, £381m (2021 £380m) of these amounts are disclosed as non-current as they are not expected to be settled within the next 12 months. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

Critical accounting judgements

Management has applied judgement when assessing the expected credit loss (ECL) on amounts owed by subsidiary undertakings. An assessment of the future trading cash flows and asset values of the subsidiaries has been made which also considers intercompany transactions between group companies. As a result of this assessment, no ECL has been recognised in the current period as it is immaterial.

The Directors consider that the carrying value of amounts owed by subsidiary undertakings approximately equates to their fair value.

7. Trade and other payables

	2022 £m	2021 £m
Amounts owed to subsidiary undertakings ^a	286	282
Accrued charges	–	1
Other payables	1	1
	287	284

a. Amounts owed to subsidiary undertakings are repayable on demand. Interest is not charged on all balances. Where interest is charged, it is charged at market rate, based on what can be achieved on corporate deposits.

8. Borrowings

Accounting policy

The accounting policy for borrowings is disclosed in the consolidated financial statements in note 4.1.

Borrowings can be analysed as follows:

	2022 £m	2021 £m
Current		
Bank overdraft	17	25
Total borrowings	17	25

Unsecured revolving credit facility

The Company holds an uncommitted gross overdraft facility of £50m (2021 £50m) as part of the Group's notional pooling arrangements with a net facility limit of £5m (2021 £5m) across the participating Group companies. The amount drawn at 24 September 2022 is £17m (2021 £25m).

9. Taxation**Accounting policy**

The accounting policy for taxation is disclosed in the consolidated financial statements in note 2.4.

Deferred tax asset

Movements in the deferred tax asset can be analysed as follows:

	£m
At 26 September 2020	40
Charged to income statement – pensions	(29)
Charged to income statement – tax losses	1
Credited to other comprehensive income – pensions	24
At 25 September 2021	36
Charged to income statement – pensions	(8)
Charged to other comprehensive income – pensions	(9)
At 24 September 2022	19

Analysed as tax timing differences related to:

	2022 £m	2021 £m
Pensions	14	31
Tax losses ^a	4	4
Share-based payments	1	1
	19	36

a. Tax losses arising in 2008 which are now recoverable by offset against other income.

Further information on the changes to tax legislation are provided in note 2.4 to the consolidated financial statements.

10. Equity**Called up share capital and share premium**

Details of the amount and nominal value of called up and fully paid share capital and share premium are contained in note 4.7 to the consolidated financial statements, including details of the Open Offer share issue on 12 March 2021.

Dividends

Details of the dividends declared and paid by the Company are contained in note 4.7 to the consolidated financial statements.

Own shares held

Details of the amount of own shares held are contained in note 4.7 to the consolidated financial statements.

Alternative performance measures

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

The Group's results are presented both before and after separately disclosed items. Adjusted profit measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports an effective comparison of the Group's trading performance from one period to the next. Adjusted profit measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 2.2.

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

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52-week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the FY 2022 sales performance directly against the comparable period in FY 2019 of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal. Comparisons have been made against FY 2019, being the last full year pre-Covid-19.	Group income statement
Like-for-like sales excluding VAT benefit	Like-for-like sales excluding VAT benefit reflects like-for-like sales growth excluding the benefit of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales to 12.5% in the first half of FY 2022.	Group income statement
Adjusted earnings/(loss) per share (EPS)	Earnings/(loss) per share using profit before separately disclosed items.	Note 2.5
Net debt	Net debt comprises cash and cash equivalents, cash deposits net of borrowings and discounted lease liabilities. Presented on a constant currency basis due to the inclusion of the fixed exchange rate component of the cross currency swap.	Note 4.4 Note 4.3
Net debt: Adjusted EBITDA	The multiple of net debt including lease liabilities, as per the balance sheet compared against 52-week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 4.4 Group income statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

The sales comparisons this year have been compared directly to the sales in FY 2019 being the last full year pre-Covid-19. FY 2020 and 2021 are not considered appropriate comparisons for trading performance due to the significant disruption caused to trade due to Covid-19 related restrictions and closures. A comparison to FY 2019 performance is the same approach as taken at FY 2021 and, although we note its limitations, has been used to give the reader an insight into performance against the most recent year not to be impacted by Covid-19. Moving forward into FY 2023 it will become more meaningful to use FY 2022 as a primary comparator for like-for-like sales.

Sales of all UK managed sites that were trading in the two periods being compared, are expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

Like-for-like sales excluding VAT benefit have been shown to illustrate the impact of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales to 12.5% in the first half of FY 2022.

	Source	2022 52 weeks £m	2019 52 weeks £m	2022 vs. 2019 LFL %
Reported revenue	Note 2.3	2,208.3	2,236.5	(1.3)%
Less non like-for-like sales and income		(247.4)	(296.0)	16.4%
Like-for-like sales		1,960.9	1,940.5	1.1%
Less like-for-like sales VAT benefit		(38.4)	–	–
Like-for-like sales excl. VAT benefit		1,922.5	1,940.5	(0.9)%

Drink sales

	Source	2022 52 weeks £m	2019 52 weeks £m	2022 vs. 2019 LFL %
Reported drink revenue	Note 2.3	956.7	1,024.8	(6.6)%
Less non like-for-like drink sales		(91.0)	(122.2)	25.5%
Drink like-for-like sales		865.7	902.6	(4.1)%

Food sales

	Source	2022 52 weeks £m	2019 52 weeks £m	2022 vs. 2019 LFL %
Reported food revenue	Note 2.3	1,166.4	1,136.5	2.6%
Less non like-for-like food sales		(130.1)	(151.2)	14.0%
Food like-for-like sales		1,036.3	985.3	5.2%

Other sales

	Source	2022 52 weeks £m	2019 52 weeks £m	2022 vs. 2019 LFL %
Reported other revenue	Note 2.3	85.2	75.2	13.3%
Less non like-for-like other sales		(26.3)	(22.6)	(16.4)%
Other like-for-like sales		58.9	52.6	12.0%

B. Adjusted operating profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows an understanding of the trading of the Group.

	Source	2022 52 weeks £m	2021 52 weeks £m	Year-on-year %
Operating profit	Income statement	124	81	53.1%
Separately disclosed items	Note 2.2	116	(52)	323.1%
Adjusted operating profit		240	29	727.6%
Reported revenue	Income statement	2,208	1,065	107.3%
Adjusted operating margin		10.9%	2.7%	8.2 ppts

C. Adjusted earnings/(loss) per share

Earnings/(loss) per share using profit/(loss) before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows an understanding of the trading of the Group.

	Source	2022 52 weeks £m	2021 52 weeks £m	Year-on-year %
Profit/(loss) for the period	Income statement	13	(65)	120.0%
Add back separately disclosed items	Income statement	94	(12)	883.3%
Adjusted profit/(loss)		107	(77)	239.0%
Basic weighted average number of shares	Note 2.5	595	566	5.1%
Adjusted earnings/(loss) per share		18.0p	(13.6)p	232.4%

D. Net Debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52-week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. From FY 2020, leases are included in net debt following adoption of IFRS 16. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

Due to the Covid-19 closure periods in FY 2020 and 2021, we do not have a representative 52-week EBITDA measure to calculate this metric for FY 2021 as a comparative.

	Source	2022 52 weeks £m
Net debt	Note 4.4	1,679
EBITDA	Income statement	374
Add back separately disclosed items	Income statement	(1)
Adjusted 52-week EBITDA		373
Net debt: Adjusted EBITDA		4.5

E. Return on capital

Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement of return commences three periods following the opening of the site.

The reduced level of return is not indicative of the quality of the investment programme which has performed well over recent years, but due to the reduced trading levels due to Covid-19 restrictions that are captured in the calculation.

Return on expansionary capital

	Source	2021 FY 2018–21 £m	2022 FY 2019–21 £m	2022 FY 2022 £m	2022 Total £m
Maintenance and infrastructure		182	112	39	151
Remodel – refurbishment		191	128	60	188
Non-expansionary capital		373	240	99	339
Remodel expansionary		14	7	2	9
Conversions and acquisitions ^a		55	28	2	30
Expansionary capital for return calculation		69	35	4	39
Expansionary capital open < 3 periods pre year end		23	18	19	37
Total capital	Cash flow	465	293	122	415
Adjusted EBITDA	Income statement	1,279	857	373	1,230
Non-incremental EBITDA		(1,271)	(852)	(371)	(1,223)
Incremental EBITDA		8	5	2	7
Return on expansionary capital		12%	14%	50%	18%

a. Conversion and acquisition capital is net of capex incurred for projects which have been open for less than three periods pre year end.

Shareholder information

Shareholder information

Contacts

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Telephone 0121 498 4000
Registered in England No. 4551498

Registrar

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Telephone 0371 384 2065*

From non-UK jurisdictions:
Telephone +44 121 415 7088*

For those with hearing loss, a textphone is available on 0371 384 2255*
for UK callers with compatible equipment.

www.mbplc.com/investors/contacts/

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England & Wales.

Key dates

These dates are indicative only and may be subject to change.

Annual General Meeting	February 2023
Announcement of interim results	May 2023
Pre-close trading update	September 2023
2023 final results announcement	November 2023

In line with our sustainability strategy to lessen the negative impact of our business, we have reduced the number of Annual Reports we have printed this year. Once that supply is exhausted, we will not print any further copies, though the Annual Report will be available on our website and can be printed from there if required, using the following link:
www.mbplc.com/investors/annualreport.

Our brands

All of our popular brands have their own websites, helping our customers to find the information they need straight away. Latest food and drink menus, news and offers, email newsletters, online bookings and details of new openings are all available.

Alex

www.dein-alex.de

All Bar One

www.allbarone.co.uk
@allbarone

Browns

www.browns-restaurants.co.uk
@BrownsBrasserie

Ember Inns

www.emberinns.co.uk
@EmberInns

Harvester

www.harvester.co.uk
@HarvesterUK

Innkeeper's Collection

www.innkeeperslodge.com

Miller & Carter

www.millerandcarter.co.uk
@MillerandCarter

Nicholson's

www.nicholsonspubs.co.uk
@Nicholsonspubs

O'Neill's

www.oneills.co.uk
@ONEillsPubs

Premium Country Pubs

www.mbplc.com/findapub

Sizzling Pubs

www.sizzlingpubs.co.uk
@SizzlingPubs

Stonehouse Pizza & Carvery

www.stonehouserestaurants.co.uk
@stonehousepizza

Toby Carvery

www.tobycarvery.co.uk
@tobycarvery

Vintage Inns

www.vintageinn.co.uk
@Vintage_Inns

Mitchells & Butlers online

Mitchells & Butlers' comprehensive website gives you fast, direct access to a wide range of Company information.

- Downloadable Annual Report and Accounts
- Latest investor news and press releases
- Brand news and offers
- Responsibility policies
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