Annual Report and Accounts 2021

Mitchells & Butlers

About us

We run many of the UK's most beautiful and iconic pubs. In fact, we are one of the leading restaurant and pub companies in the UK with 1,645 managed businesses.

Our scale is impressive. Since 1898, Mitchells & Butlers has been at the forefront of UK drinking and eating out. In FY 2019 (the last year that was uninterrupted by closure) we served 120 million meals, as well as some 380 million drinks. We employ over 43,000* 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.

In FY 2021, our guests, employees and communities have needed our support during a period of huge insecurity driven by the global pandemic. Since the phased reopening in April 2021, following a six-month period of increasing restrictions culminating in total closure from January 2021, our primary focus has been on creating a safe environment, for our guests and team members to enjoy.

As we continue to navigate the challenging and changing environment we will remain focused on our three priority areas of building a more balanced business, instilling a more 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

£1,065m
Revenue

£(42)m
Loss before tax**

£29m
Adjusted operating profit***

(11.5)p
Basic loss per share***

Financial review
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Environmental, Social and Governance targets

25%
Reduction in greenhouse gas emissions by FY 2030

20%
Reduction in food waste by FY 2025

80%
Increase proportion of waste recycled to 80% by FY 2025

ESG review
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Contents

* As at 25 September 2021.
** Includes separately disclosed items.
*** 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 168 to 170 of this report.

"Doing the right thing for the brands people love"

Phil Urban
Chief Executive

At Mitchells & Butlers, our purpose is to be the host of life's memorable moments, bringing people and communities together through great experiences.

Our purpose has clearly been tested once again this year due to the disruption Covid-19 has had on our ability to trade. During the year our business has had to navigate tiering, lockdowns, the loss of Christmas trade and numerous changes in the way we operate and interact with guests.

What has been proven without doubt during this period is that we have a great team of people and a strong culture. People from across the business stayed in touch and supported one another through lengthy and repeated lockdowns, and were willing to do whatever was needed to support the Company. Our teams reopened their businesses to the public despite ongoing Covid-19 concerns, completed complicated furlough submissions and grant applications and dealt with stock issues and product shortages all whilst delivering enjoyable and memorable experiences to our guests. In short, our team has had a mountain of challenges to deal with over the last twelve months, both personally and as a business, and they have risen to every one of them.

We have welcomed the Government support which was available during closure and participated actively with UK Hospitality to protect and support as many jobs in the industry as possible.

Since reopening, the business has performed well and we have begun to see a return to normality in terms of trading. We believe that the public's love of socialising with friends in a pub or restaurant will remain strong and, as it's done countless times before, the industry will bounce back. The next few pages show some of the things we have done over the last few months under the headings of safety, unity and community to protect and support our guests, people and communities.

Timeline of the pandemic and M&B's response in FY 2021

A year where we have risen to the challenge

2020

October

Increasing trading restrictions including the introduction of regional tiers resulting in reduced guest visits

November

Second 4-week lockdown came into force in England on 5 November

December

- Trading recommences on 2 December but with even tighter restrictions within the regional tiers, including tier 3 areas remaining closed
- With the introduction of tier 4 as the delta variant is discovered, restrictions become progressively tighter, resulting in further site closures and significantly reduced sales activity during the important festive season
- Further restrictions introduced resulting in the closure of the whole estate for the third time from 30 December

May

- Indoor trading starts on 17 May, with almost all of our estate open with Covid-19 secure procedures in place

FY 2021 has been another year of unprecedented challenges for Mitchells & Butlers, the industry and the world. Here are some of the key events affecting the Group during the period.

2021

January

Imposition of a wider national lockdown from 4 January

- Whole estate remains closed

February

- Announcement of our intention to undertake an Open Offer to raise additional equity
- In parallel with this and conditional on completion of the Open Offer, agreement was reached with our relationship banks for a new 3-year £150m unsecured facility, and for an extension of the waivers and amendments in place over the securitisation to avoid technical breaches
- Formation of Odyzean announced, representing the combined shareholding of Piedmont, Elpida, and Smoothfield showing their support for the Company and the proposed Open Offer
- Open Offer launched on 22 February

Roadmap for easing restrictions announced on 22 February

March

- Results of Open Offer published on 11 March, with £351m raised to provide short-term working capital needs, reduce the level of unsecured debt and strengthen the balance sheet

April

Phased reopening of hospitality starts on 12 April, with outdoor areas allowed to trade

June

- 98% of the estate has reopened

July

19 July – All trading restrictions are lifted

Purpose in Action – Safety

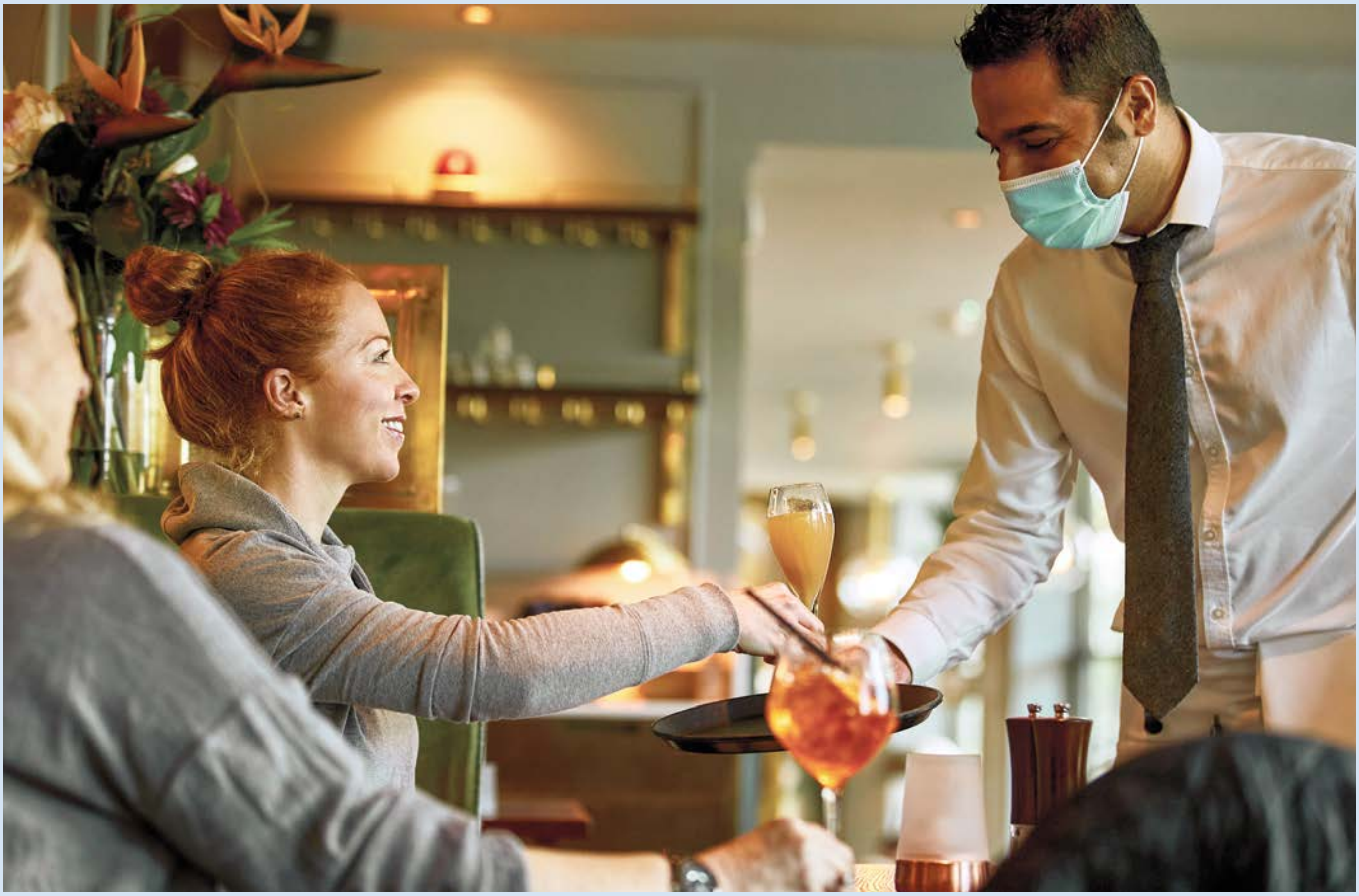
We have put safety first...

This financial year continued to be dominated by the effects of Covid-19. As was the case last year, the business needed to be flexible and adapt very quickly to the ever-shifting operational landscape.

PEACH 20/20

Toby Carvery was presented with the Brand Trust Award at the 2021 Peach 20/20 Hero and Icon Awards for the brand that scored highest among their customers for trust, reliability and service.

"We will never let up in our focus on providing the highest levels of safety to everyone associated with our business."



Of critical importance during this period was the safety of our people and guests. Our well-tested Covid-19 secure procedures including directional and spacing signage, sanitising stations, disposable menus and table spacing were adopted by our teams, with the aim of providing a safe environment whilst still providing a hospitable feel and great experiences for our guests. We have the experience and confidence to maintain and support these measures going forward, with our internal safety technicians again providing training and assurance that the measures have been adopted and implemented.

Post reopening our biggest challenge was a staffing one, as a result of the 'pingmedic'. So, despite the effectiveness of our policies, risk assessments and mitigation measures, the number of team members receiving a notification from the NHS Test and Trace app informing them to isolate progressively increased during June and July, with a resultant knock-on effect on our ability to staff our businesses. On 16 August, all Governments across the home nations relaxed the requirement to isolate for those who had been fully vaccinated, which broke the link between Covid-19 cases and the closure of our pubs and therefore made trading far easier.

The lack of customer outbreaks associated with our businesses is testament to the success of the work that our operational and safety teams have undertaken in this area, as is the fact that M&B's approach to creating a Covid-secure environment was constantly commended by visiting authorities, as quantified by the business receiving no letters of enforcement in the period. This is the second year that this has been the case proving the effectiveness of our work. However, we are acutely aware that in a multi-site business there is no room for complacency in this area and we will therefore never let up in our focus on providing the highest levels of safety to everyone associated with our businesses.

Some recent customer feedback

"Great meal with family for a birthday treat. Very good service and tasty food. Nice and simple covid rules in place with common sense in mind and plenty of signs too."

tripadvisor

Feedback on Miller & Carter
Hinckley 4 July 2021.

"Professional service, lovely atmosphere, excellent food cooked to perfection. Room clean and comfortable. Felt safe staying here as they have all covid policies adhered to. Couldn't find any fault at all."

Booking.com

Feedback on Innkeeper's Lodge Hawes Inn Hotel
South Queensferry
6 August 2021.

Purpose in Action – Unity

We have remained united...

The last year has proven that M&B has a great team of people and a strong culture. Our teams have had a mountain of challenges to deal with, both personally and as a business, and they have risen to them magnificently.

We have maintained our focus on supporting our people during the last year, applying many of the lessons learnt from our work during the early days of the pandemic. These have included maintaining effective communication, either directly through one-to-one contact, or via updates through social media such as M&Be Together, which focuses on employee wellbeing by promoting a sense of community and togetherness across brands and locations.

We support the wellbeing of our people through a number of different initiatives including the employee assistance programme run by the Licensed Trade Charity; the wellbeing centre on our benefits hub; and the wellbeing hub on our online training resource Mable. Mable splits our wellbeing support into five pillars – social, environmental, physical, mental and financial, offering training for all retail and corporate managers on supporting themselves and their teams. The level of engagement with the training has been very positive with almost 2,000 managers having completed the wellbeing course and over 2,000 having completed the mental health awareness course. In addition, we have hosted three wellbeing days at our offices in Birmingham, with partners visiting the offices to talk to our people about how they can support them. We intend to have a further event early in FY 2022 in line with World Mental Health Day.

We have also maintained our investment in the personal and professional development of our people through our digital learning hub, as well as ensuring that our teams were properly prepared with return-to-work training for when their businesses reopened.

The recruitment and retention of staff has always been a priority for the business, and the recent well-publicised shortage of talent entering the hospitality sector has sharpened our focus in this area. During the year we have:

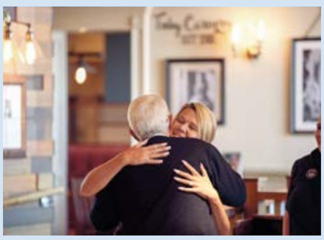
- reignited our internal succession strategy to ensure that our people are developed at pace so that their aspirations, capability and potential are harnessed;
- maintained apprenticeships as a significant part of our succession strategy, with the aim of developing people to supervisory and management roles. The plan is to grow our programme by a further 3,500 starts next year;
- replenished our chef academy learning roles, with 225 new starts targeted by the end of FY 2022;
- piloted initiatives to fast-track external recruits from other sectors with transferable skills; and
- developed an internal pipeline, partly through apprenticeships, to progress people with niche skills such as digital marketing and business change and technology into corporate roles.

Investing in our staff
with wellbeing training courses

2k+

Managers completed the mental health awareness course

"We are hugely grateful to our teams for their hard work and loyalty during the last 18 months and are excited by the opportunity to rebuild the profitability of the business with their support."



Apprenticeship strategy

A significant part of our retention and succession strategy

3,500

starters planned for FY 2022

225

chef academy new starts targeted by the end of FY 2022

Two award-winning Mitchells & Butlers employees who have progressed as a result of our investment in apprenticeships:

"The skills and confidence the apprenticeship has given me helps me in my job every day, and I can't wait to continue my career with Mitchells & Butlers."

Ben Deegan
The Hollybrook, Ember Inns recently won Rising Star in the East Midlands region of the National Apprenticeship Awards.

"Completing the apprenticeships has grown my capabilities as an HR professional, giving me the confidence to put the new skills learnt into practice in my day-to-day role."

Lauren Carroll
Vocational Learning Attraction Manager, who recently won Degree Level Apprentice of the Year in the West Midlands region of the National Apprenticeship Awards.

In spite of the pandemic, our award-winning youth strategy continues to be recognised by external bodies; M&B achieved the following awards:

- HR Excellence Awards 'Best Talent Management Programme'
- BII NITA 'Best Training Programme Managed over 50 outlets'
- National Apprenticeship Awards West Midlands Regional winner and Best Recruitment Programme
- National Apprenticeship Awards Top 100 Employers: 8th position
- School Leaver Awards 'Best Recruitment Strategy'

Overall, our focus is on ensuring that our employee proposition to new and existing people remains attractive against other employers in the industry. A large part of this is providing industry-leading learning and development to provide a pipeline of talent throughout M&B.

In early September 2021, in line with Government guidance, we asked our support teams to return to our head office in Birmingham. We felt that, as a central part of our culture has been built on people interacting with each other, we needed to provide the facility for these contacts to recommence, as well as supporting the return to work in city centres that our businesses are so keen to see happen.

In summary, we are hugely grateful to our teams for their hard work and loyalty during the last 18 months and are excited by the opportunity to rebuild the profitability of the business with their support.

Purpose in Action – Community

We have supported our communities...

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

All Bar One donation

50p

from every festive burger sold donated to Shelter

During the various lockdowns over the last 18 months, visiting pubs and restaurants has been one of the most missed activities, demonstrating the long-held sense of enjoyment and appreciation the community has for pubs and restaurants.

Over many years, our pubs, bars and restaurants have acted as a meeting place, in the heart of the community, where people of all backgrounds can get together and socialise. We believe that this sense of community is as important now as it was then and, therefore, we feel that it is important for venues such as ours to be maintained and operated responsibly and safely for the benefit of all. Our strategy is built around our purpose which is to be the host of life's memorable moments, bringing people and communities together through great experiences.

This sense of community is ingrained in all aspects of our business, both in our sites and within our central functional teams, and we understand the importance of protecting those communities and the environment around them. We are taking our responsibility in this regard seriously, and have developed a plan, as part of our sustainability strategy, to increase the positive effects we can have on society and the communities we work in and reduce the negative impact our business and operations have on the environment.

Many of our brands support charities which have relevance to their brands and its customers with All Bar One supporting Shelter; Toby Carvery Armed Forces; and Nicholson's the RNLI. Our corporate partners are Mind, Shelter and Social Bite.

Our corporate partners

Shelter
Exists to defend the right to a safe home. Because home is everything.

Mind
Here to make sure no one has to face a mental health problem alone.

Social Bite
Works and campaigns to reduce homelessness.

Much of our activity has been curtailed in the year by the pandemic. However we have exciting plans for FY 2022 including working with:

- **Social Bite** – a charity which is a major employer of homeless people as well as the largest provider of freshly-made free food in the UK to those in need. We are currently progressing a proposal with them for a Social Bite Academy to train homeless people with hospitality skills, as well as looking at how we can help support their Festival of Kindness;
- **Shelter** – our team members from our four City brands will be taking part in the Sleep Walk for Shelter later this year and All Bar One will be donating 50p from every festive burger sold over the Christmas period to the charity.

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 Mitchells & Butlers, its people and its pubs, bars and restaurants at the core of their communities, both serving and supporting them.

Chairman's statement

Bob Ivell
Chairman

"Our top priority remains the safety of our team members and guests, while carefully rebuilding the profitability of the business."

This year has again been dominated by the effect of the Covid-19 pandemic on our communities and our business. From lockdowns, to tiering, to the loss of Christmas trade, to the gradual reopening of our sites we have been in the continued grip of events that are unparalleled in our trading history.

These events clearly presented the business and its management with a number of challenges. Throughout we have striven to ensure the safety of our team members and our guests. Thanks both to the excellence of our operational teams and the strength of our governance, I am proud to say that we were always able to move swiftly and decisively to safeguard our guests and team members as circumstances shifted and changed. Further detail on these governance arrangements can be found in the corporate governance statement on page 62.

We also needed to refinance the business such that we were able to survive extended periods of lockdown and were in a position to emerge from the crisis, brought about by the pandemic, in a position of strength. The Group's liquidity and solvency positions deteriorated considerably as a result of closures and trading restrictions and, therefore, in February 2021, an Open Offer was launched to raise sufficient fresh equity to recapitalise the business and provide financial stability. The quantum of the equity raise was carefully considered, and in March 2021 gross proceeds of £351m were raised through a fully pre-emptive offer, to provide the Group with the optimum capital structure to support the business through the expected remaining disruption of the pandemic, and, going forward, to deliver its strategy to win market share whilst deleveraging.

In advance of the equity raise, three of the Group's largest shareholders; Piedmont, Elpida and Smoothfield, came together as a single group, and consolidated their holdings under a newly incorporated holding company, Odyzean Limited. This was in order to help support the significant capital needs of Mitchells & Butlers and provide a clear and consistent framework for their future relationship with the Company. As a result of the establishment of the Odyzean Group, around 57 per cent of the Company's shares are now owned and controlled by the Odyzean Group. The Odyzean Group has communicated to the Company that it is fully supportive of the Group's management team, which has established the business as a sector leader with a strong focus and direction.

"Thanks both to the excellence of our operational teams and the strength of our governance, I am proud to say that we were always able to move swiftly and decisively to safeguard our guests and team members as circumstances shifted and changed."

Our purpose

During this 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. Despite all the disruption and change during the period, this core responsibility has remained. Given this, we were delighted to begin to reopen our businesses in April with outdoor trading and to then be able to welcome our guests inside in May.

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.

Our culture

Our people are our greatest asset, and this has never been more evident than during the period of the pandemic. The positivity, resilience, flexibility and care shown by our staff have set new standards, demonstrating the team culture which exists within the organisation. Whatever has been thrown at them, both personally and professionally, they have responded brilliantly, and I would like to thank all of them for their hard work, focus and dedication to Mitchells & Butlers and its guests.

The Board and the Executive team, who lead the organisation, have also responded magnificently, dealing with the complex operational and financial challenges caused by the pandemic calmly and efficiently. Although the environment remains uncertain, we will continue to endeavour to support our people, with health, wellbeing and financial security being the most important aspects of that support.

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 many and varied challenges posed by the restrictions arising from the pandemic, together with the continued drain on cash resources from a business that at times had no income to support it.

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. Colin Rutherford and Imelda Walsh, who joined us in 2013, stepped down from the Board on 19 July 2021, and Ron Robson who joined us in 2010, stepped down from the Board on 31 July 2021. I would like to thank all three of them for their dedicated service over the years they were with us, and for their unwavering support, particularly during the course of the pandemic.

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.

Bob Ivell
Chairman
Mitchells & Butlers plc

Chairman's introduction to Governance
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Chief Executive's business review

Phil Urban
Chief Executive

"Demand for our well-loved brands has been demonstrated by an encouraging return to sustained like-for-like sales growth since restrictions have been lifted."

Introduction

In my review this year I would like to remind you of the chronology of the events that impacted the business over the last year, update you on our actions to address our liquidity needs, outline how we performed once we reopened, and as restrictions began to lift, before focusing on the year ahead, and on the many exciting initiatives that we have kicked off again, which we believe will regain the momentum the business previously had.

Before I do though, I would like to comment on the supportive contribution from our stakeholders during the period and the excellent position the business is in to progress over the medium term.

Clearly events during the period made it a very difficult year for our General Managers and their teams, who were nothing but totally professional throughout, stepping up and supporting the business at every turn.

For the first half of last year we were focused on the short-term financial security of the business, and therefore halted our capital programme to conserve cash, suspended our work on our Ignite programme and took short-term action to reduce the outgoings of the business as much as possible.

We have worked closely with our suppliers who we thank for supporting us through lockdown, and helping us to reopen, in some cases at relatively short notice.

Most importantly, our customers have remained loyal to our brands and businesses despite periods of closure, changing operating templates, and reduced menus. Trading since restrictions were lifted has been strong with pent up demand to meet with friends and family again evident.

Despite the inevitable challenges faced by our business over the past year we are now well positioned to regain the momentum previously built as we come out of the pandemic.

The trading environment remains challenging and cost headwinds continue to put pressure on the sector. However, we have strengthened our balance sheet and returned to profitability and cash generation, allowing us to resume our capital plan and Ignite programme which will deliver sales and efficiency improvements to help combat these challenges. Demand for our well-loved brands has been demonstrated by an encouraging return to sustained like-for-like sales growth since restrictions have been lifted, and we are confident in our ability to continue our recovery as a market leading operator.

Business review

The start of the year was dominated by the continuing effects of Covid-19 with increased trading restrictions, including the introduction of regional tiers, resulting in reduced guest visits in the lead up to the second four-week lockdown in England on 5 November.

Throughout closure periods we kept operating costs to a minimum, reduced discretionary capital expenditure and over 99% of employees were put on furlough. We continued to work hard to keep all our team members connected and informed through our support portal, launched last financial year, and social media platforms. The welfare and mental health of our team have continued to be a primary concern and we are encouraged by the way our teams have pulled together in this difficult time.

Trading recommenced on 2 December, but with even tighter restrictions within the regional tiers, including tier 3 areas remaining closed. Throughout December, restrictions became progressively tighter resulting in further site closures and significantly reduced sales activity over the important festive trading season followed by full closure of the estate for the third time from 30 December, ahead of the imposition of the wider third national lockdown on 4 January.

As a result, the Group's liquidity position deteriorated significantly over the first quarter. On 15 February we announced our intention to undertake an Open Offer to raise additional equity. In parallel with this process, we reached agreement with our relationship banks for a new £150m three-year unsecured facility and extended temporary waivers and amendments in place over the securitisation to avoid technical breaches that would have been incurred due to forced closure, both of which were conditional on completion of the Open Offer. The formation of the Odyzean Group was also announced, representing the combined shareholdings of Piedmont, Elpida and Smoothfield, demonstrating their support for the Company through this critical period.

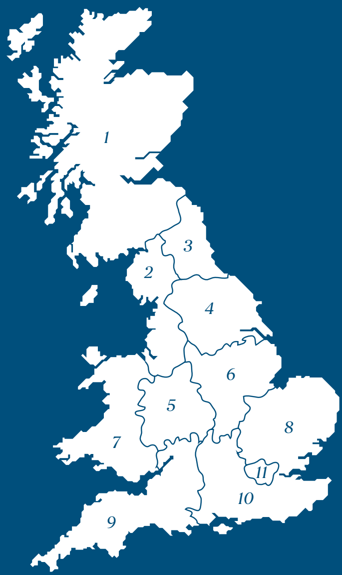
The Open Offer was launched on 22 February, with the results published on 11 March confirming gross proceeds of £351m to provide funding for short-term working capital needs and to reduce the level of unsecured debt and strengthen the balance sheet. In particular, this enabled us to restart our estate investment strategy and maintain our strong competitive position, while continuing our focus on long-term deleveraging.

The estate remained closed until phased reopening began on 12 April with outdoor trading only which allowed 31% of the estate to open. On 17 May indoor trading was also permitted with Covid-secure procedures in place including table-service only, restrictions on group sizes and face coverings. A phased approach to reopening across our sites meant that by June 98% of the estate had reopened and from 19 July all restrictions were lifted.

Total sales across the full year were £1,065m reflecting these restrictions on trade and a total of 18 weeks of mandated closure[b]. Operating profit of £81m (FY 2020 £8m) was generated, with adjusted operating profit[a] of £29m reflecting the strong return to profitability the business made when sites reopened.

Mitchells & Butlers has continued to play a role in the UK Hospitality forums that helped devise the Hospitality Sector Protocols Document and has lobbied the Government directly to support the sector during closure. We welcomed the Government's extended support through a reduced VAT rate on certain supplies and the business rates holiday, in addition to the security of employment provided by the furlough scheme enabling us to continue to protect the vast majority of our employees. However, we are disappointed that, going forward, Government support has been largely limited to small, independent operators.

UK Outlets by region (FY 2021)



% of outlets	
1 Scotland	5%
2 North West	10%
3 North East	3%
4 Yorkshire and Humberside	9%
5 West Midlands	15%
6 East Midlands	5%
7 Wales	4%
8 East of England	7%
9 South West	7%
10 South East (excluding London)	15%
11 London	20%

82%

of the UK population live within five miles of an M&B site

Over 43,000

Employees as at 25 September 2021

82%

Freehold properties

Chief Executive's business review continued

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

15

Brands and formats
across 1,645 sites

Alex
44 sites

Harvester
163 sites

Premium Country Pubs
126 sites

All Bar One
54 sites

High Street
71 sites

Stonehouse
92 sites

Browns
23 sites

Miller & Carter
120 sites

Suburban
242 sites

Castle
106 sites

Nicholson's
78 sites

Toby Carvery
154 sites

Ember Inns
150 sites

O'Neill's
41 sites

Vintage Inns
181 sites

Over this period, consumer trends such as home delivery have been accelerated and digital technology, that we were already implementing, has become increasingly important. Order-at-table, now successfully rolled out across the majority of our estate, has been particularly popular with our pub brands where we saw sales mix build whilst restrictions were in place. The usage of this technology has reduced since restrictions were lifted but levels remain significantly higher than before the pandemic.

The unprecedented challenges the industry has faced have had an unavoidable impact on market supply with an 8.6% decline in licensed premises since March 2020, according to the October AlixPartners CGA Market Recovery Monitor. We believe that the platform of financial stability provided through the equity raise leaves us well placed to benefit from these changes in the competitive landscape.

Our strategic priorities

Despite the impacts of Covid-19, the fundamental strengths of our business remain and ensure we are well-positioned for the future. We have an 82% freehold estate, with recognised and diversified brands across a broad range of consumer demographics and geographical locations, and an experienced and proven management team with the focus to build on the momentum previously gained before the pandemic and the recovery that is being seen after the end to Covid-related restrictions. In the short to medium term, our priority is on successfully trading the business in the current challenging environment, ensuring the safety of our team members and guests, managing significant cost inflation and on growing the business back to, and beyond, the levels of trade that we were enjoying before Covid-19.

Our Ignite programme of work remains at the core of our long-term value creation plans and we have now reopened our project office and we are working on 43 fresh initiatives, some of which are already being implemented in the business. Our immediate focus, on reopening, was the successful rebuilding of trade following the extended periods of closure and we prioritised initiatives that support this, such as the enhancement and expansion of our delivery offer and the review of promotion and pricing at brand level. Going forward, as cost pressures mount beyond normal pre-pandemic levels, we are also increasingly focusing on initiatives which enhance efficiency and productivity, helping to offset some of these headwinds in areas such as optimal labour scheduling (increasing the efficiency with which we deploy our labour at site level), automatic product ordering (improving stock management and process efficiency), reduction of food and drink waste and enhancing capacity utilisation in our sites. We remain confident in our ability to deliver long-term and sustained efficiencies and business improvements through the existing Ignite programme.

We also resumed our capital programme which has been proven to deliver value by improving the competitive position of our pubs and restaurants within their local markets. We are committed to re-establishing a 6-7 year investment cycle and whilst we are likely to encounter short-term supply issues in terms of material procurement and contractor availability, which may affect progress in the current financial year, this continues to be a key focus for the business.

Current trading and outlook

Since trading resumed without restrictions on 19 July, we have seen an encouraging return to like-for-like sales[a] growth, helped by the lower rate of VAT on food and non-alcoholic drink sales. Since the year end, like-for-like sales[a] have been in growth of 2.7% as compared to the same period in FY 2019. However, cost headwinds present a major challenge to the hospitality sector as a whole, most notably in utilities and employment costs. Through accelerated and focused delivery of a new set of Ignite initiatives and tight control of the business we are working hard to mitigate these costs as far as possible, but there will inevitably be a residual impact on the current financial year's performance.

We successfully launched our Open Offer on 22 February, raising £351m. The equity raise, alongside the associated package of refinanced terms for our secured and unsecured debt, provides a strong platform of financial stability as we continue to rebuild the business after the disruption caused by the Covid-19 pandemic.

At the balance sheet date, the Group had cash balances on hand of £227m, with undrawn unsecured facilities of £150m.

Whilst uncertainty and challenges still remain, we are encouraged by the demand that we have seen since reopening, supporting a return to profitability and cash generation.

Phil Urban
Chief Executive
Mitchells & Butlers plc

"Whilst uncertainty and challenges still remain, we are encouraged by the demand that we have seen since reopening, supporting a return to profitability and cash generation."

Definitions

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 168 to 170 of this report.
b. Mandated closure is defined as more than 90% of the estate being closed.

Our markets

The external environment

During the year the Covid-19 pandemic has continued to dominate the sector. At the beginning of the period restrictions began to tighten after a period of trading with minimal restrictions during the summer.

Regional restrictions were introduced in October 2020 and on 5 November a second full lockdown was announced. Trading resumed on 4 December with tighter restrictions within the regional tiers, including closure for tier 3 sites, and as case numbers continued to rise further a review of regional tiering resulted in 44 million people entering tier 4 which required the closure of pubs and restaurants. At this point, the whole of the estate was closed and remained closed through the next national lockdown which commenced on 4 January 2021 and required all pubs and restaurants to close apart from for the provision of takeaway.

A phased reopening of the hospitality sector began on 12 April with outdoor trading only. Indoor trading with restrictions such as table service only and with one-metre social distancing required, was allowed to resume on 17 May, and on 19 July, 'Freedom Day', all restrictions were lifted.

In April, with the resumption of outdoor trading, like-for-like sales across the market, as measured by the Coffer Peach Tracker, opened in decline for the month of 26% against the comparable period in 2019, with total sales down 60% over the month reflecting the large proportion of sites which remained closed.

After trading restrictions were removed, sales across the market improved and like-for-like sales[a] growth was achieved in August and September. Performance was generally stronger in suburban locations than city centres, with consumers staying local during the pandemic and much of the workforce continuing to work from home. Footfall within major cities remained well below pre-pandemic levels making trading in city centres more challenging. However, footfall has been slowly increasing in cities and an improvement in performance has followed, a trend which is expected to continue. We believe that the desire to socialise in pubs and restaurants, and to share experiences which cannot easily be replicated at home, remains strong and that there is pent-up demand which has built during closure.

Supply of pubs and restaurants has reduced since March 2020 before the first national lockdown in response to Covid-19, with the financial pressure of closures and trading restrictions forcing a number of operators to close. Since March 2020 9,900 pubs and restaurants have closed representing a reduction in supply of 8.6%.

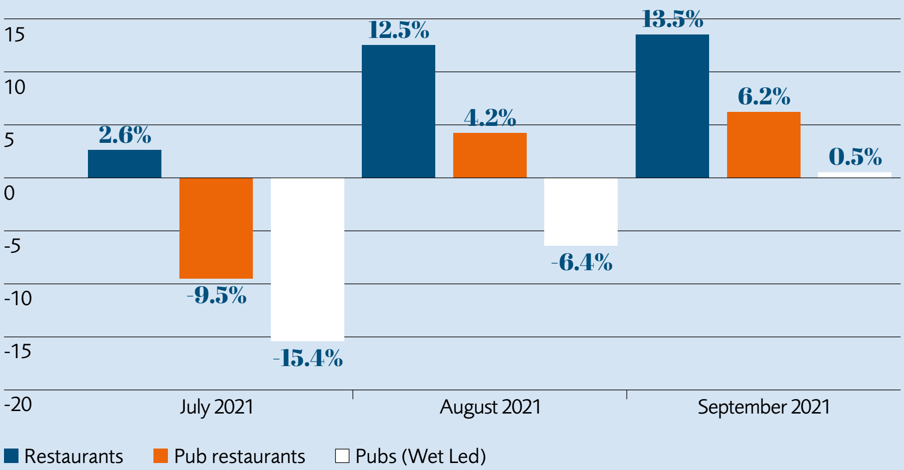
Digital technology became increasingly important in supporting the business during the pandemic. Technology allows the service cycle to be adapted whilst adhering to Government restrictions. Facilities such as guests' ability to make an order-at-table on their phone helped pubs and restaurants to reduce contact between teams and guests. Guests became more accustomed to digital elements of their experience in pubs and restaurants, such as scanning a QR code to access menus, and paying on their mobiles, and therefore the use of technology to enhance guests' experience has been accelerated due to the impacts of Covid-19.

Brexit remains an important event for the market and has created risks for the sector, principally around the supply and cost of products and workforce shortages. Risks in relation to procurement have been well managed by buying ahead to mitigate the potential lack of availability of products, reviewing and updating key contracts to maintain commerciality of agreements, 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.

"Brexit remains an important event for the market and has created risks for the sector, principally around the supply and cost of products and workforce shortages.

Risks in relation to procurement have been well managed by buying ahead to mitigate the potential lack of availability of products, reviewing and updating key contracts to maintain commerciality of agreements, identifying contingency markets and maintaining strong commercial relationships with key suppliers."

Coffer CGA business tracker (inc. M&B) by Segment



Source: Coffer CGA business tracker

Net market outlet closures post Covid-19 pandemic

	Net market closures March 2020 to September 2021	% change in total known sites March 2020 to September 2021
Food-led	-4,669	-10.8%
Drink-led	-4,201	-6.9%
Accommodation-led	-1,030	-9.6%
Total	-9,900	-8.6%

Source: CGA Alix Partners market recovery report October 2021

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 168 to 170 of this report.

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 feel good about.

Our strategic priorities are the pillars which underpin the activity within the business to drive long-term sustainable growth and ultimately, which enable us to achieve our purpose to be 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 feel good about, 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 re-establish stability and growth in the business following a period of 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 like-for-like sales[a] growth and sustained outperformance of the market before Covid-19 disrupted trade. 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. Examples of these initiatives include deploying a sophisticated labour deployment tool, empowering all of our team members to upsell and improving our digital interactions with guests. Our focus on these key strategic areas was reflected in our strong trading performance when we again reopened in April 2021.

At the beginning of FY 2020 we developed a new wave of initiatives to form the third wave of Ignite. As a result of the Covid-19 pandemic, we had to delay the roll out of these initiatives as we focused on rebuilding trade and remaining flexible in the uncertain trading environment. Our short-term priority was to provide a safe environment for our guests and team members and to trade as effectively as possible as restrictions eased. Whilst safety remains a key priority, as trade began to stabilise towards the end of FY 2021, the Ignite programme was relaunched. We believe that our three strategic pillars remain the crucial elements of the business which will drive long-term growth. Through the Ignite workstream we will continue to unlock value in these areas enhancing our competitive position in the market.

"We have maintained consistency in our three strategic priorities over recent years and believe that continued focus in these areas is key to re-establish stability and growth in the business following a period of 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 168 to 170 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, have the ability to reduce our impact on the environment and remain competitive to guests, alongside meeting cash flow commitments

FY 2021 progress

- Capital expenditure was significantly below historic levels as part of the cash management strategy in response to Covid-19, being limited to essential maintenance and infrastructure and the completion of committed acquisitions and outstanding remodels
- The investment programme remains a long-term priority area for the business

FY 2022 priorities

- The capital programme has resumed in FY 2022
- 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
- Upgrade external trading areas to capitalise on outdoor drinking and dining

Sustainability

- Founding members of the Zero Carbon Forum which aims to develop a roadmap to Net Zero for the industry
- Identified opportunities to reduce our consumption of natural resources across the estate
- Reduce the environmental impact of our capital programme for example by reusing and repurposing kitchen equipment and furniture to reduce waste
- Increasing use of LED lighting across the business
- Electric vehicle charge points installed

Links to Key Risks 1, 2, 3, 8, 9, 11, 12, 13
See pages 32 to 39

Links to KPIs 2, 3, 4, 5
See pages 30 and 31

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 2021 progress

- One of the greatest challenges of the year has been tackling the Covid-19 enforced closure in Winter 2020 and subsequent phased reopening under restrictions
- Our teams have adapted to the changing Covid-secure procedures required in our businesses and have worked hard to ensure that guests' experiences have not been negatively impacted whilst successfully managing safety
- In such a disrupted and challenging environment good cost control is essential and has been delivered by diligent management of each business
- Central procurement teams have worked successfully alongside suppliers to ensure sites were stocked optimally for reopening, leveraging and maintaining the strong supplier relationships which have already been established
- Successful rollout of auto-ordering for drink across the estate which has increased product availability
- The Live Data project was successfully completed under the Ignite programme delivering real time sales and stock information so our team can work more efficiently
- Continued progress on menu and product rationalisation resulted in further cost savings
- Successful trial of integrating complaints resolution into Reputation.com platform ensuring guest feedback is responded to swiftly
- Continued our work with Stop The Traffik to drive best practice in addressing Modern Day Slavery threats in the supply chain, including risk mapping and enhancing our reporting procedures

FY 2022 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
- Increase scope of fraud detection capability via IntelliQ and eliminate double discounting
- Grow the number of apprentices across the business
- Development and rollout of 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
- Increase average spend-per-head through tailored pricing, menu psychology and digital ordering
- Drive guest review scores higher through a number of projects within the Ignite programme, including focus on shift leadership, brand standards and guest recovery
- Rollout of auto-ordering for food which aims to increase product availability and reduce waste
- Continue to leverage scale through central procurement

Sustainability

- Digital platforms were used to communicate with employees during the Covid-19 closure periods and to ensure training on new safety procedures was completed by team members before they returned to work
- Apprentices were able to continue their learning through a remote learning platform throughout closure
- Reopening with simplified menus has helped to reduce food waste, which is one of our key sustainability priorities
- Enhanced processes to enable us to assess, identify and report instances of Modern Day Slavery through our work with Stop the Traffik, focusing primarily on the high-risk areas of the organisation and the supply chain

Links to Key Risks 1, 2, 3, 6, 8, 9, 11, 12, 13
See pages 32 to 39

Links to KPIs 1, 2, 3, 5
See pages 30 and 31

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 2021 progress

- Continued focus on developing our delivery offers with 767 sites live with one or more of Just Eat, Deliveroo and Uber Eats and the integration of delivery apps with our ePOS systems
- Click & Collect is now available widely across the estate
- Rapid response to changing Covid secure requirements including the effective roll out across all sites of safety protocols and clear communication with guests
- Our established mobile order and pay-at-table solution was rolled out to more brands and included numerous feature and user experience improvements
- Reduced system downtime through proactively identifying potential system failures with Dynatrace
- Completed a major project to rebuild the way product data is managed, giving us the ability to improve the way nutritional, dietary and allergen information is presented to our guests, especially on digital channels
- Founding members of Zero Carbon Forum bringing the hospitality sector together to map a path to net zero emissions

FY 2022 priorities

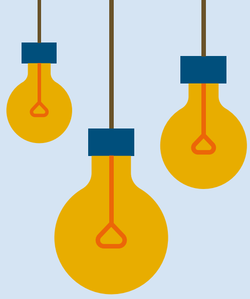
- Further expand our delivery offer to more sites and increase the number of channels available across the estate
- Trial 'Own Channel Delivery' whereby guests can order a meal for delivery through our own brand apps and the order is fulfilled by a third-party partner
- Continue to develop our order and pay-at-table technology with new features, user experience improvements and upselling opportunities
- Deliver enhancements to Customer Relationship Management including triggered push notifications to app users and greater personalisation of e-mail content
- A more sophisticated utilisation of booking systems to improve table yield
- 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
- Continue to evolve and develop all of our brands and concepts to ensure that they stay relevant to guest needs
- Working with World Resources Institute to develop ways to reduce the emissions of the ingredients on our menus

Sustainability

- Finding innovative ways to reduce our energy consumption to contribute to our carbon emission reduction, with energy ambassadors in place to support every pub and restaurant across the estate
- Evolving our menus to reduce the carbon impact of our food supply
- Empowering managers to make sustainable choices within their businesses
- Collaborating with suppliers to enhance the sustainability credentials of their products and services to align with our ambitions
- Working with partners to access best practice across sustainability priorities and contributing to collaborative industry groups to share experiences
- Supporting businesses looking to find sustainable solutions relevant to our industry

Links to Key Risks 1, 2, 4, 5, 8, 11, 12, 13
See pages 32 to 39

Links to KPIs 2, 3, 5
See pages 30 and 31



Our sustainability targets

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

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

Operating the business in a sustainable way underpins our strategic priorities and is a part of the way we want to do business. We have purposefully interlinked sustainability into our strategic priorities 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.

Through a materiality assessment we have identified the UN Sustainability Development Goals which we believe we can have the greatest impact on and have aligned these to our strategic pillars as shown on the facing page. For each of the pillars we have defined our objective, key actions and targets. We work closely with the Sustainable Restaurant Association and industry groups to share best practice and learning to move the industry forward as a whole.

Our targets

1. Greenhouse gas emissions

-25%

Target Reduce greenhouse gas emissions by 25% by FY 2030 (measured as GHGe/meal, including Scope 1, 2 and 3 emissions) from our FY 2019 baseline.

Performance Our Scope 1, 2 and 3 greenhouse gas emissions have decreased by 68% against our FY 2019 baseline. The reduction is primarily due to closure in the period and is not reflective of expected ongoing levels of emissions now that our pubs and restaurants have reopened. Details of the breakdown of our emissions and opportunities for reduction can be found on pages 58 to 60.

Total Scope 1 and 2 emissions reduced by 25% in the 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 is due to mandated closure of our estate in the period in response to Covid-19 and therefore does not contribute towards our long-term ambition to reduce the overall emissions of the business. However, as part of our roadmap to emissions reduction we do have energy consumption reduction initiatives live in the business. For example, energy ambassadors are in place in each geographical cluster of sites helping managers to understand and identify opportunities to reduce energy consumption. Meanwhile we are reviewing opportunities to invest in more efficient equipment and technology.

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. As a founding member of the Zero Carbon Forum the business is developing a roadmap to achieve net zero emissions. Opportunities to reduce Scope 3 emissions are currently being investigated; there are many areas of opportunity for reduction and these include reducing the emissions of the ingredients of our menus through the Cool Food Pledge, and by working with suppliers to reduce the emissions of input products and the delivery network.

2. Food waste

-20%

Target Reduce food waste by 20% by FY 2025 from our FY 2019 baseline.

Performance The requirement for a reduced number of menu items on reopening following the Covid-19 related closure has resulted in a reduction in food waste. However, our plans to tackle food waste within our sites, following the Wrap UK roadmap, have been delayed due to closure.

We plan to restart this initiative in FY 2022.

All of the 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.

3. Recycling

80%

Target Increase proportion of waste recycled to 80% by FY 2025.

Performance Due to the impacts of Covid-19, with estate closure and reopening, the recycling rate at the end of the financial year was 53.5%. In addition, 2,085 tonnes of used cooking oil were recycled. Initiatives are now underway across our businesses and in partnership with our waste management provider, Biffa, to improve our recycling rate. We are also working with suppliers to reduce the amount of packaging entering our businesses and ensuring that the materials used are recyclable.

Sustainability strategic pillars

1. Sourcing

Objective

Reduce the negative impact of our food and drink supply chain on greenhouse gas emissions, biodiversity and deforestation

Key actions

- Participation in the World Resources Institute's Cool Food Pledge initiative which aims to reduce emissions of food supply chain with trials in two brands to begin in FY 2022
- BBFAW tier 2 rating maintained and remains a key focus
- Supplier agreements set out sustainability expectations and standards supported by annual supplier conferences
- All direct palm oil from RFA approved sources, working with supplier on embedded soy

UN Sustainable Goal alignment

2. Community

Objective

Increase the positive effect on people impacted by the business, be they employees, guests or the wider community

Key actions

- Strategic partnerships with charities developed, including Shelter, Mind and Social Bite
- Enhanced employee wellbeing strategy and improved resources and tools available to employees
- Brand-driven relationships with local organisations and charities
- Modern Day Slavery policies enhanced following review performed by Stop the Traffik

UN Sustainable Goal alignment

3. Resources

Objective

Reduce the use of natural resources and find opportunities to contribute to the development of a circular economy

Key actions

- Founding member of the Zero Carbon Forum which aims to develop a roadmap for hospitality to achieve net zero emissions by 2040
- Greenhouse gas emission baseline completed on FY 2019, including Scope 1, 2 and 3 emissions
- Strategic initiatives to reduce greenhouse gas emissions as part of Ignite 3 programme
- Focus on reducing waste and increasing rate of recycling
- Identification of opportunities within the capital programme to enhance sustainability of buildings

UN Sustainable Goal alignment

Greenhouse gas footprint

Target: reduce greenhouse gas emissions by 25% by FY 2030

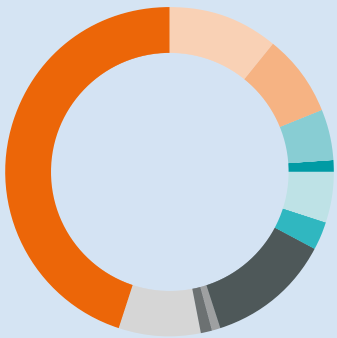
The challenge to reduce greenhouse gas emissions is central to our sustainability strategy and remains a priority for the business. The Board is actively involved and supportive of these ambitions and influences the strategy directly through the Corporate Responsibility Committee. We are building measurable, data-led initiatives to achieve our target reduction, allowing us to clearly understand our progress. We continue to consult with third parties to measure our emissions footprint and to explore opportunities for reduction. We are also a founding member of the Zero Carbon Forum, bringing the hospitality sector together to share best practice, tackle group challenges and to develop a roadmap of reduction for the sector.

Our current target is to reduce our greenhouse gas emissions by 25% by FY 2030, measuring Scope 1, 2 and 3 gases and using FY 2019 as a baseline. Greenhouse gas emissions in the year reduced by 68% against the FY 2019 baseline, primarily reflecting the periods of closure during the year.

We are working hard to reduce our Scope 1 and 2 emissions by lowering the consumption of energy within our businesses and by developing a programme of investment to enhance the efficiency of our buildings and equipment. In addition to focusing on reducing our energy consumption we have worked with our energy providers to ensure that 100% of the energy we use is generated from renewable sources.

Our food purchases represent the largest single contributor to our emissions footprint and capture the emissions generated in the production of the ingredients we use in our menus. This is typical of a restaurant or catering company and reinforces the importance of understanding the food we serve to our guests and the impact that has on the environment. We are working with the World Resources Institute on the Cool Food Pledge programme to develop a roadmap to achieve a significant reduction in the emissions generated by the food we serve. The emissions reduction plan will be designed to lessen the negative impact food production has on biodiversity and maintaining high standards of animal welfare.

Greenhouse gas emissions FY 2021 (Scope 1, 2 & 3)



- Food 45%
- Gas 11%
- Electricity 8%
- Purchased goods and services 5%
- Capital goods 1%
- Fuel and energy related activities 5%
- Employee commuting 3%
- Downstream transportation and distribution 12%
- Logistics supply chain 1%
- Waste generated in operations 1%
- Drinks 8%

Our business model

The Mitchells & Butlers difference

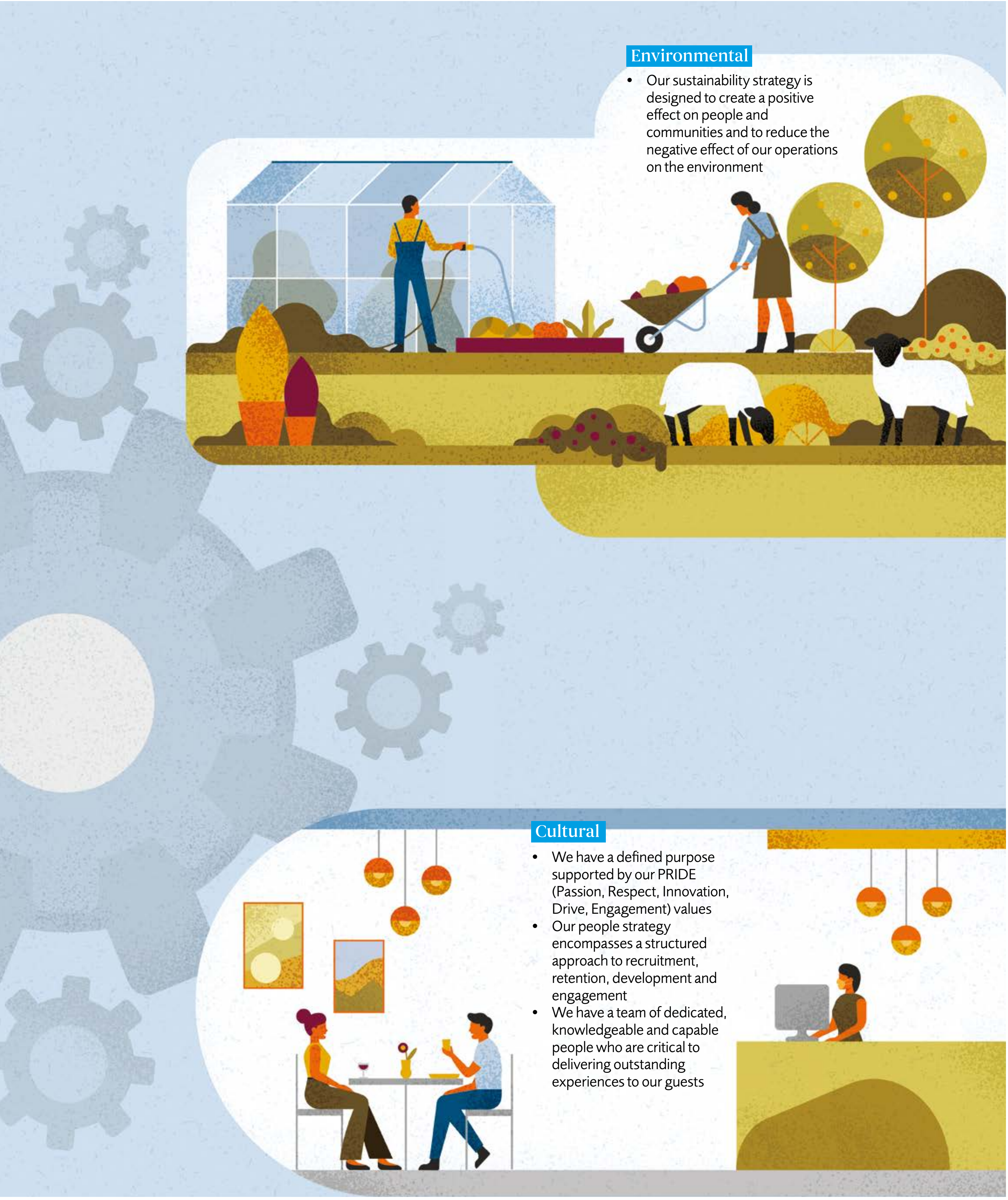
In this section, we outline the distinctive characteristics of Mitchells & Butlers that enable it to create value for its stakeholders – be they financial, structural, environmental or cultural.

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

Structural

- We have a diversified portfolio of leading brands and offers
- We are a predominantly freehold business with well-invested properties
- As one of the leading 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

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

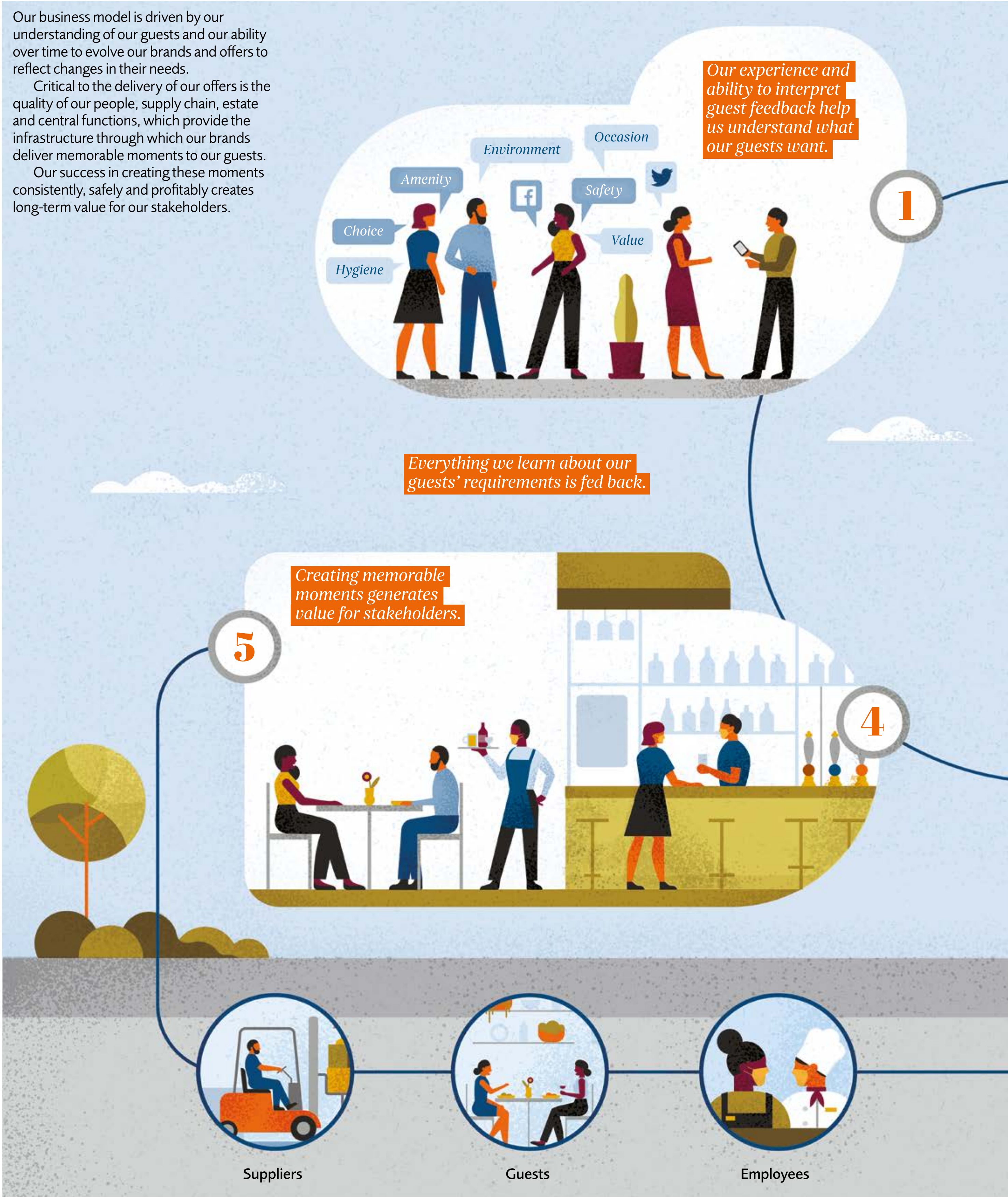
Our business model *continued*

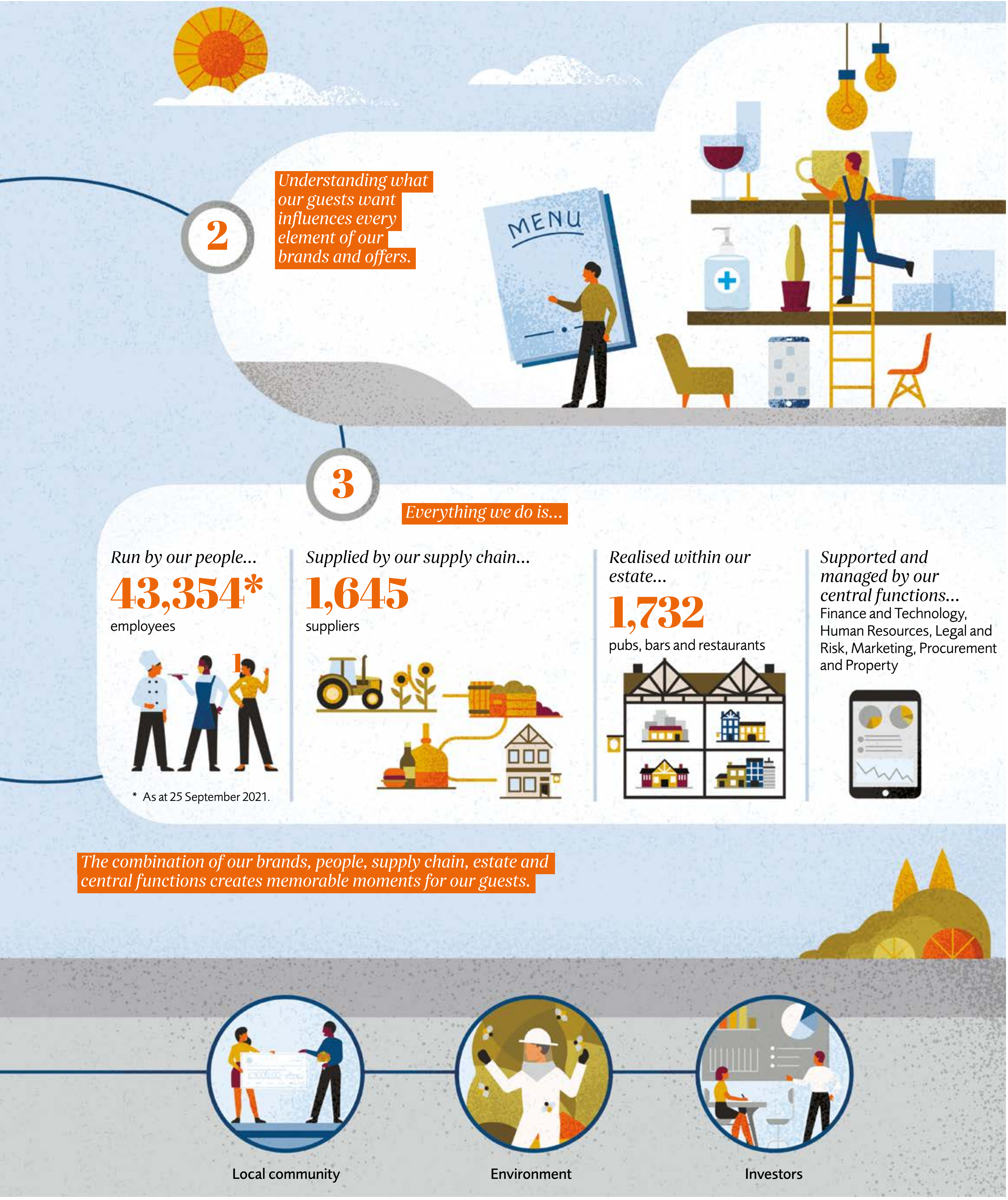
How we create value

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

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

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




2
Understanding what our guests want influences every element of our brands and offers.
MENU
3
Everything we do is...
Run by our people...
43,354*
employees
* As at 25 September 2021.
Supplied by our supply chain...
1,645
suppliers
Realised within our estate...
1,732
pubs, bars and restaurants
Supported and managed by our central functions...
Finance and Technology, Human Resources, Legal and Risk, Marketing, Procurement and 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 2021 highlights

Suppliers

BBFAW
Business Benchmark on Farm Animal Welfare

Achieved tier 2 Business Benchmark on Farm Animal Welfare rating

Worked closely with suppliers through the pandemic closure and reopening to ensure businesses reopened with sufficient stock levels at relatively short notice

FareShare
fighting hunger, tackling food waste

Minimised waste in the supply chain from initial closure of the business due to Covid-19 through our 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 and it is thanks to these relationships that we were able to successfully reopen the majority of the estate following the various Covid-19 closures with minimal stock issues. Through these long-term partnerships, we work to maintain transparency about our payment terms. We worked closely with suppliers during the closures and subsequent reopenings to ensure the needs of both businesses were met as far as possible and to ensure relationships were 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.

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

Guests

Industry leading safety scores

4+

online review score of over 4 out of 5 across the business

Average online review scores increased after reopening following initial Covid-19 closure

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 collated centrally and used to provide valuable insight to both our operations and brand marketing teams.

As the Covid-19 pandemic has unfolded our ability to provide a safe environment has become more important than ever. We have always strived to achieve the highest safety and hygiene standards and have used this strong base to evolve our ways of working for the new challenges we face. We focus on ensuring high-quality, consistent practices across the business. In the current environment this has been achieved through detailed Covid-secure brand guidelines being developed centrally with brand input and clearly communicated to teams so that expectations are clear. 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 continually assess changing guest preferences across these areas to position our brands for success.

Employees

M&Be Together is an online community bringing together employees across the Company

M&Be Borrowed developed a way to offer a return to work in neighbouring sites for furloughed employees whose 'home' site was closed due to Covid-19

Personal development and training opportunities during closure through our digital learning platform

Digital learning platform facilitates efficient update of guidelines as needed

Wellbeing support provided throughout

The following table sets out our diversity balance between men and women at the end of FY 2021.

	Men	Women
Directors	7	2
Other senior managers	29	14
All employees	**20,118**	**23,236**

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 thrive. We are proud of the training and development opportunities we offer and strive to provide progression opportunities to all of our people.

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.

One-to-one manager reviews take place twice a year where clear objectives are set and reviewed.

Employee forums are hosted by the Executive team and are open to all employees, 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. Covid-19 has brought this even further to the fore and we have been proud of the quick response we were able to make to the pandemic in order to keep our people safe. Clear and consistent communication has been key throughout the pandemic developments to ensure the Company remains united and informed. The ongoing wellbeing of employees remains a primary focus of the Company as we continue to navigate through the challenges the pandemic presents.

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 of our employees. Our employee Diversity and Inclusion Policy ensures that every employee, without exception, is treated equally and fairly and that all of our employees are aware of their responsibilities.

Value creation story continued

Local community

Providing a safe environment for communities to come together during the Covid-19 pandemic

£210m

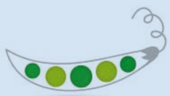
of Government support for employees through furlough grants during the period

£57m

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

#5

Harvester awarded No.5 in Out to Lunch rankings by The Soil Association



Pledge to the Peas Please campaign

Developed a nutritional roadmap focused on enhanced information and balanced choices

We have a long history of providing a central hub to many communities where people have met and socialised for decades. We are proud of our position in local communities and have been pleased to be able to re-establish this service following enforced Covid-19 closures. It was encouraging to see that the pub was one of the most missed meeting places during the first lockdown and that encourages us further to ensure we maintain the prominence of pubs and restaurants within the local community and continue to serve as a place to bring people together.

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.

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

107,000

Food which would otherwise be wasted equivalent to 107,000 tonnes redistributed through partnership with FareShare

Harvester and All Bar One part of the Cool Food Pledge, trialling methods to reduce carbon emissions of menus

Founding member of the Zero Carbon Forum

The natural environment provides the business with the resources it needs to operate. We take our responsibility to protect that environment seriously and, therefore, last year we reviewed our sustainability strategy and 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.

Investors

Strong stewardship through the Covid-19 pandemic

Equity raise gave strength to balance sheet

Clear communication maintained with investors through additional statements and one-to-one meetings

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. During the Covid-19 pandemic the Board has been actively involved in all areas of decision-making, including the reopening strategy, communications, operational practices and the financing strategy.

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 and in navigating the challenges of Covid-19.

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.

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 62 to 74.

Key performance indicators

Measuring performance

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

1. Staff turnover

Definition

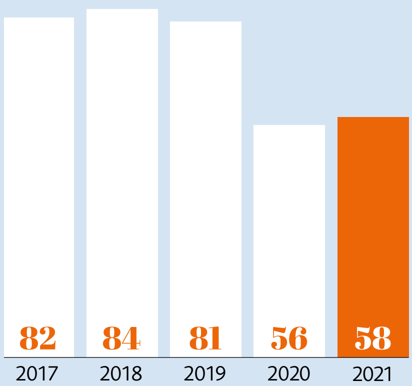
The number of leavers in our retail businesses, expressed as a percentage of the average number of retail employees. This like-for-like measure excludes site management. The turnover measurement gives an indication of the retention of retail staff and can help to identify if there is an arising retention 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 2021 performance

Retail staff turnover was 23 percentage points lower than FY 2019, the last year pre-Covid-19, due to the impact Covid-19 has had on the normal course of business. The number of leavers has been suppressed due to closure and Government support, such as the furlough scheme. The score was largely in line with FY 2020 which was also impacted by Covid-19.

We will continue to focus on supporting our people as trade recovers from the uncertain environment we have been operating in and expect turnover inevitably to rise back to pre-pandemic levels.

58%



Links to strategic priorities: 2
See pages 18 and 19

2. Net promoter score

Definition

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

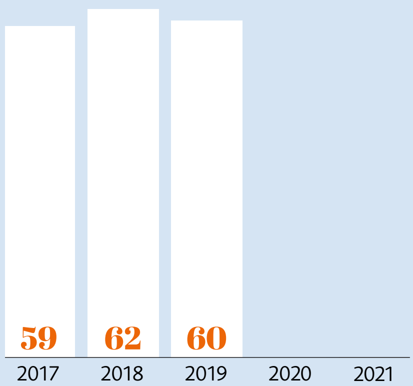
The net promoter score for a site is defined as the percentage of responses where we score 9 or 10 out of 10, less the percentage of responses where we score 0 to 6 out of 10, based on the question "how likely are you to recommend this site to a friend and/or relative?".

NPS is 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 decided to change our reported guest measure to a blended review score with effect from the end of FY 2022.

FY 2021 performance

Net promoter score is measured through responses to site specific surveys. As in FY 2020, these surveys were switched off during the closure period and subsequent reopening. Therefore, we are not able to calculate the period end score.

However, our average feedback score across all major feedback channels increased +0.1 to 4.3 out of 5 for FY 2021.



Links to strategic priorities: 1, 2 and 3
See pages 18 and 19

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 168 to 170 of this report.

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

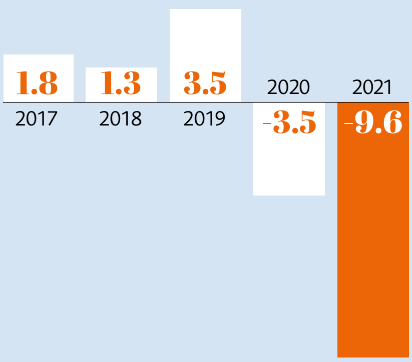
Definition

The 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 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.

FY 2021 performance

Like-for-like sales declined by 9.6% in FY 2021 vs. FY 2019. This deterioration in trend against previous years is due to the impacts of Covid-19 including capacity restrictions and reduced consumer confidence.

-9.6%



Links to strategic priorities: 1, 2 and 3
See pages 18 and 19

4. Incremental return on expansionary capital[a]

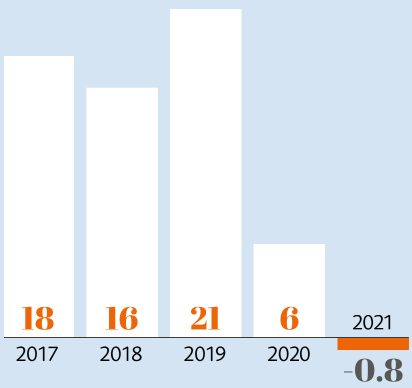
Definition

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 2021 performance

The EBITDA return on all conversion and acquisition capital invested in FY 2021 was -0.8%. The measure is significantly impacted by closure periods and reduced trading levels, because of the impact of Covid-19 during the period, and therefore is not indicative of the quality or future potential performance of invested sites. Our capital programme continues to be a key focus of the business and one which we believe will deliver future value.

-0.8%



Links to strategic priorities: 1
See pages 18 and 19

5. Adjusted operating profit[a]

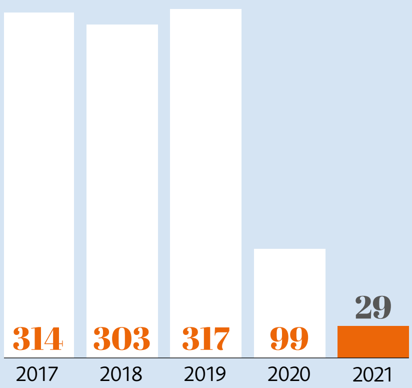
Definition

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 a better 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 2021 performance

Adjusted operating profit for the year of £29m was 70.7% lower than the prior year. This reduction in profit is due to the impacts of Covid-19 during the period, including closure and reduced trading levels partially offset by Government support schemes.

£29m



Links to strategic priorities: 1, 2 and 3
See pages 18 and 19

Risks and uncertainties

Keeping risk under control

This section highlights the principal risks and uncertainties that affect the Company, 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 Company faces but focuses on those that are currently considered to be most relevant.

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 73 and 74.

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.

Risks presented to the Group, including those arising as a result of Covid-19, have been subject to regular review and scrutiny by the Executive Committee and the Covid-19 Steering Committee. Mitigation plans were put in place for all key risks. More details of these governance arrangements are set out on pages 62 to 74.

The Risk Committee, and the Board, followed and monitored the political developments and negotiations for the relationship which the UK now has with the EU at the end of the transition period, following the UK's departure from the EU at the end of January 2021 (and also kept under review the developments arising from the UK's exit from the EU during the rest of the period). In preparation for these events, the Company had already developed plans to mitigate any impact that might arise at the end of that transition period. Those plans were reviewed and approved by the Risk Committee and agreed and adopted by the Board. As the circumstances which apply following the UK's exit from the EU at the end of the transition period have evolved over the period, those mitigation plans and the extent to which they are required to be implemented remain under ongoing review.

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.

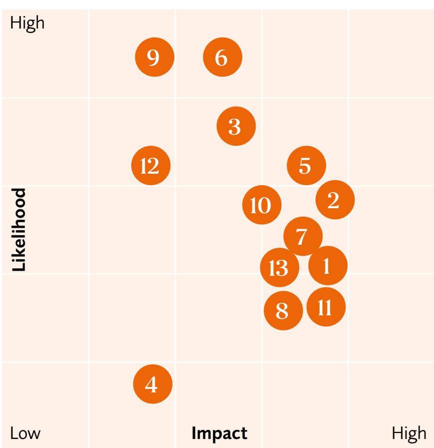
Key Risk Heat Map

The risk matrix 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. Declining 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



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 • Covid-19 Steering Committee • Health and Safety Team • Technology specialists • Legal support
3rd	• Group Assurance • Operational Practices Team

Risk category and description	*Controls/mitigating activities*	*Movement*
1. Borrowing covenants There are risks that borrowing covenants are breached because of circumstances such as: i. The continuation of disruption due to the Covid-19 pandemic; ii. A change in the economic climate leading to reduced cash net inflows; or iii. A material change in the valuation of the property portfolio. **Risk Stable** 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 potential for further lockdowns/restrictions, so on balance, is assessed as 'Stable'.	• The Company maintains 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 are included in the long-term viability statement. • We have taken measures to protect the financial health of the business whilst operating at reduced capacity and continue to closely manage the cash position of the Group. • In March 2021, we agreed the waivers required to ensure we would remain compliant with all covenant requirements (please refer to the Corporate Viability Disclosure on page 40).	**Risk Stable**
2. Declining sales performance This risk falls into the below main categories: **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. **Consumer and market insight:** If Mitchells & Butlers 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. **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. **Consumer behaviour as a result of Covid-19:** With the reopening of pubs and restaurants, consumers may have a different mindset to eating out, with health and safety at the forefront of priorities. Guests may want greater insight into practices, and food supply chain information to feel confident in their eating out experience. **Risk Increasing** Overall risk is increasing due to the potential decline in sales following the Covid-19 pandemic.	• Right operational and commercial team and structure in place. Brand alignment ensures the right research is done and is acted upon. • Daily, weekly and periodic sales reporting, monitoring and scrutiny activity is in place. • During the period of disruption caused by the Covid-19 pandemic, a steering committee met at least weekly and more frequently as needed to ensure appropriately diligent supervision, monitoring and management of controls and risks. • Our Eat Drink Share panel provides robust, quick and cost-effective research. This is our own panel of 27,000 Mitchells & Butlers guests whom we can use for research purposes for quick and cost-effective insights. • Primary research in partnership with brand/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/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 Company'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. • Measures are in place to ensure that the business continues to respond to guest requirements post the pandemic. • Although now ceased, during FY 2021, the Government financial assistance, such as furlough payments in respect of employee costs, business rates suspension and reduction of VAT, assisted to address the decline in revenue.	**Risk Increasing**

Risks and uncertainties continued

Risk category and description	*Controls/mitigating activities*	*Movement*
### *3. People planning and development* Mitchells & Butlers 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. Prior to Covid-19, the external pipeline for high potential talent, particularly in senior roles, and digital, was tightening due to the rise in opportunity in a growing and competitive marketplace. Post-Covid-19, external recruitment activity over the previous year is challenging due to quality candidates being reluctant to move in the current climate. A further potential risk is the image of hospitality, given the recent pandemic impact. Retention is high amongst our director and 'head of' populations which may lead to a perceived lack of progression routes and hence unwanted loss of good talent at lower levels. Regarding retail labour, overall, there is a continued risk of a lack of quality of internal/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. Despite Covid-19 and the high level of redundancies in the UK, this still remains a risk mainly driven by the declining number of non-UK applicants following the UK's departure from the EU and the restrictions which some non-UK employees have faced in moving to the UK to work as a result of the pandemic control measures such as travel restrictions and border controls. 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. Wage pressure (over 25s) remains an issue, as competition for labour increases. **Risk increasing** There has been a loss of EU workers within the Group, particularly in London and the South East. Therefore, the overall risk is increasing following the UK's departure from the EU. Restrictions on the movement of labour have had a material impact on both the cost of labour and access to talent.	• The Company 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. • The apprenticeship programme will also assist in mitigating against the increasing risk in relation to non-UK workers. • A new talent management system has been sourced. • In compliance with the furlough scheme, we were able to continue employee training so that staff were fully trained on new ways of working for our reopening.	**Risk Increasing** (Specifically in London/South East)

Risk category and description	*Controls/mitigating activities*	*Movement*
4. Business continuity and crisis management Mitchells & Butlers 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. **Risk Stable** Staff have the resources and ability to work remotely rather than rely on access to the Retail Support Centre.	• The Company has in place crisis and continuity plans that are tested and refreshed regularly. • Following Covid-19, new ways of working are in place for all Retail Support Centre staff when the office is temporarily closed to employees. Positively, 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.	**Risk Stable**
5. Information and cyber security 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. 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. Risk of non-compliance with data protection laws is an increasing risk for the business to ensure full compliance remains up to date. **Risk Increasing** 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 closed out efficiently.	• A detailed external review of cyber security processes is performed on a regular basis in order to highlight any gaps and address any challenges. As a result, a number of further improvements have been made (and continue to be made) to strengthen overall cyber security controls. • In addition, controls include: – 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.	**Risk Increasing**
6. Wage cost inflation There is a risk that increased costs associated with further increases to the National Living Wage may adversely impact upon overall operational costs. It is unclear at this stage how Covid-19 may affect overall wage costs as we head into FY 2022. Therefore, this review will continue as part of our review of all emerging risks facing the business. **Risk Increasing** Due to further increases set by Government, wage costs could continue to increase.	• A detailed review of the risks associated with the National Living Wage has been completed. This review has been undertaken at a strategic level to ensure that the Group carefully manages productivity and efficiency across the estate. • We have successfully implemented a time and attendance system to improve the management controls and reporting of staff hours.	**Risk Increasing**

Risks and uncertainties *continued*

Risk category and description	*Controls/mitigating activities*	*Movement*
7. Pension fund deficit The material value of the pension fund deficit remains a risk. **Risk Stable** The Company has made significant additional contributions to reduce the funding deficit.	• In September 2019, the Company 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 Company 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. • We reached agreement with the Trustees in respect of non-payment of monthly deficit contributions from April – 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 – March 2021 deficit contributions, which have now been paid alongside the April 2021 contributions, following the successful equity raise.	**Risk Stable**
8. Failure to operate safely and legally A major health and safety failure could lead to illness, injury or loss of life or significant damage to the Company's or a brand's reputation. **Risk Stable** Allergen related incidents and near misses have stabilised. There is evidence in the last quarter of FY 2021 that allergen incidents are levelling out.	• Mitchells & Butlers 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. • The Company maintains two food safety Primary Authority relationships. These are held with Luton Borough Council (May 2019) and Shared Regulatory Services (November 2019) and provide assured advice on matters in England and Wales respectively. Westminster City Council continue to provide support on health and safety matters and Hampshire Fire Service for the provision of support and guidance on fire safety risks. • 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. • We continuously review the latest Covid-19 guidelines and continue to adapt our businesses in response.	**Risk Stable**

Risk category and description

9. Cost of goods – price increases

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.

Drinks: The cost of drinks for resale increases due to changes in demand, legislation, exchange rates and production costs, leading to decreased profits.

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.

Supply: Given the national shortage of drivers and labour, which is putting additional pressure on suppliers, overall costs are likely to increase.

Brexit: Although the tariff risk of a hard Brexit is now removed, we are experiencing Brexit related cost pressures from our food suppliers relating to import administration costs and workforce shortages. These Brexit related cost pressures, combined with a volatile global food market, present higher food inflation levels than pre-Covid, which we have forecasted for FY 2022.

Risk Increasing
The overall risk of price increases is increasing.

Controls/mitigating activities

Overall, cost increases are mitigated as Mitchells & Butlers 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 Company 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:

Food:

- 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 2021 ensuring the correct number of products/suppliers. This is regularly reviewed.
- Regular reporting of current and projected inflation.
- Good relationships with key suppliers.

Drinks:

- Each drinks category has a clearly defined strategic sourcing plan to ensure Company scale is leveraged, the supply base is rationalised, and consumer needs are met.
- Good relationships with key suppliers.
- Supplier collaboration programmes are in place.

Brexit: Brexit risks have remained a key focus and have been subject to continued regular review and development by management during FY 2021. Brexit risks and the mitigating action plans are embedded within each of the key risks, which are regularly reviewed by both 'risk owners' and the Risk Committee.

A number of key measures have been taken to mitigate both the known and emerging risks that Brexit may present to the business. For example, we have secured agreements with our key suppliers which include:

- Buying ahead to mitigate the increasing risk of a lack of availability of products, following the UK's departure from the EU.
- Review and update of key contracts to secure the most commercially effective supply of goods and pricing.
- Identifying contingency markets for the alternative supply of food and drink, should it be required.
- Strong commercial relationships with key suppliers which have assisted with securing an adequate supply of goods in the event of a disruption.

Covid-19
During the Covid-19 pandemic, suppliers have continued to remain very supportive, and no material further supply chain associated risks have materialised.

Movement

Risk Increasing

Risks and uncertainties *continued*

Risk category and description	*Controls/mitigating activities*	*Movement*
10. Food supply chain safety 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/employees. **Risk Stable** The key risks facing the food supply chain safety are regarded as stable.	• Mitchells & Butlers 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. • Mitchells & Butlers 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 Mitchells & Butlers' kitchens. Suppliers are then risk rated according to their products. • Each food supplier is audited at least once per annum 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 in place to ensure controls remain appropriate.	**Risk Stable**
11. Health and lifestyle concerns Failure to respond to changing consumer expectations in relation to health and lifestyle choices and our responsibility to facilitate those. **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.	• 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.	**Risk Increasing**
12. Environment and sustainability Climate change, biodiversity depletion and environmental pollution present a risk to our ability to source products, with food being particularly at risk. **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.	• We have set challenging targets in key areas such as greenhouse gas emissions, food waste, recycling and use of plastics (see page 20). • 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 FY 2030, which has been approved by the Board. • 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. • 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.	**Risk Increasing**

Risk category and description	*Controls/mitigating activities*	*Movement*
13. Enforced Government closure/trading restrictions 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/national/global pandemic, chemical/terrorist activity etc. 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. **Risk Stable** The frequency and nature of these risks arising are unpredictable, as evidenced during the Covid-19 pandemic. However, given that Government trading restrictions have been lifted, the associated risks to the business have stabilised.	• Contingency plans are in place to review/respond to enforced Government actions and/or severe business disruption/trading restrictions. These should be subject to a formal review. • Business opening/closure processes have been updated. • Strong supply chain relationships are maintained to assist in the event of cancelling/returning stock orders. • Robust processes are in place to manage Government furlough schemes. • The business, 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/business closures. • Established communication cascade/mechanisms are in place for employees, guests and suppliers. • IT infrastructure, hardware, systems and employee support are 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/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/operating procedures.	**Risk Stable**

Compliance statements

Corporate Viability

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 2024.

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 key 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, an example of which has been the profound impact of the Covid-19 pandemic.

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 provides long-term direction and aims 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 high due both to potential further impacts of the Covid-19 pandemic, which have previously inhibited the Group's ability to trade freely thereby reducing sales and activity, and to increasing cost headwinds in areas such as wage inflation and utilities. 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 £1.5bn of long-term securitised debt which amortises on a scheduled profile over the next 15 years. 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 year resulting in a number of waivers followed by 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, and at the current time the Group has no reason to conclude that they will not be refinanced ahead of their expiry.

Following the end of the third national lockdown in April 2021, and subsequent lifting of the majority of restrictions in July, the principal short-term risks facing the business are assessed to be the recovery of demand, back to pre-Covid levels and beyond, and increased cost inflation notably in 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 assessing these, the Group has also included the impact of remaining temporary Government support measures – notably a reduction in the rate of VAT to 12.5% on selected products until March 2022. Whilst the experience of Covid-19 is expected to lead to lasting changes in both customer behaviour and competition in the hospitality sector, in making this assessment the Group has taken the view that the material adverse impact of Covid-19 on sales, through trading restrictions, will be temporary in nature and should not extend to any material extent beyond FY 2021. In particular, it is assumed that no further mandated closure or trading restrictions will be reintroduced. In FY 2022 and FY 2023, the Group is forecasting sales growth of between nil and 4.5%, when compared to pre-pandemic levels.

The Group's three-year plan takes account of these risks, in addition to the prevailing economic outlook and capital allocation decisions, alongside limited planned mitigating activity such as improved operational efficiencies (stock and labour management) to manage these costs. No further Government support is assumed beyond those measures already announced. The resilience of this plan is assessed through the application of forecast analysis, including reverse stress test modelling for the first year, as detailed more extensively in the going concern note to the financial statements, focused in particular on recovery of demand and 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 to the base plan:

- declining Sales Performance (Risk event 2): 2% lower sales growth rate in FY 2022, FY 2023 and FY 2024;
- cost of Goods Price Increases (Risk event 9): 2% increase in direct Cost of Goods (Drink and Food) in FY 2022, FY 2023 and FY 2024;
- increased utilities cost (Risk event 9): additional £10m, £15m and £15m in FY 2022, FY 2023 and FY 2024 respectively against FY 2019;
- increased Wage Cost Inflation (Risk event 6): 2% increase in NLW wage rate in FY 2023 and FY 2024; and
- a scenario combining all of the above sensitivities which reduces operating profit by £39m, £48m and £59m in FY 2022, FY 2023 and FY 2024 respectively.

Liquidity and solvency based on financial covenants (Risk event 1) on both secured debt and unsecured facilities are assessed in all scenarios. In all scenarios the Group continues to remain profitable with sufficient liquidity and no forecast unwaived covenant breaches, albeit with minimal headroom in the scenario combining all sensitivities. However, 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 the anticipated recovery in profitability and the strength of the creditor relationships exhibited in the refinancing exercises during FY 2020 and FY 2021, noting also that by that time a further c.£250m of securitised debt is expected to have been paid down.

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 sufficient resources to continue in operation and meet all its liabilities as they fall due over the three-year period to September 2024. However, due to the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either a further lockdown or of material restrictions being imposed is remote. Given this lack of forward visibility, 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 22 to 25.
- Information regarding the following matters can be found on the following pages:
  - Environmental matters on pages 28 and 29;
  - Employees on page 27;
  - Social matters on pages 26 to 29;
  - Respect for human rights on pages 57, 70 and 71;
  - Anti-corruption and anti-bribery matters on page 72.
- Where principal risks have been identified in relation to any of the matters listed above, these can be found on pages 32 to 39 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 30 and 31.
- The Financial review section on pages 43 to 46 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 25 September 2021:

- 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 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.

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 which involved various periods of closure of its trading sites and the imposition of different Tiers or Levels of restrictions on operations, differing across all of the jurisdictions in which the Group operated, and the subsequent reopening of the overwhelming majority of those sites, rent payments to be made to real estate property landlords, the effect of the financial support received from the UK Government under its various Coronavirus business support schemes and the assessment of the Company's financial position and its ability to continue to trade, incur credit and to pay its employees and suppliers and other creditors. This financial assessment led to the refinancing of unsecured debt and the re-negotiation of various covenants and other terms in relation to the Company's securitisation arrangements as well as, in parallel, the issue of new shares under the Open Offer launched in February 2021. 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 on its operations, creditors, employees, regulatory bodies and other stakeholders, including regional and federal German government authorities.

Compliance statements continued

The Board had the benefit of a specific briefing from its external legal advisers on the duties and responsibilities of the Directors in relation to the challenges and unusual operating circumstances which were caused by the Covid-19 pandemic in FY 2020 and continued to keep that advice in mind throughout FY 2021, supplemented by further bespoke briefings by those legal advisers on the specific issues relating to the financial position, assessment and the refinancing arrangements, including the Open Offer. During FY 2021, three of the larger shareholders in the Company combined their interests in a single new group to form the Odyzean Group which, after the completion of the Open Offer, held a shareholding of 56.8% in the Company. In July 2021, the Company announced that it had entered into a Relationship Agreement with the Odyzean Group.

In considering the implications of the Covid-19 pandemic, 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 closure of trading sites, furloughing of staff, accessing Government support, amendments to trading arrangements with external suppliers and the financing of Group companies and agreements to new banking facilities and changes to existing debt arrangements. Similar assessments were also undertaken in relation to those periods of time when operational restrictions were imposed by various governmental authorities by reference to Tiers or Levels or other criteria and then, again, as the operational restrictions were gradually eased during the financial year.

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 18 and 19 and its agreed purpose as referred to on page 1.

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 23 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 26 to 29.

Financial review

Our financial and operating performance

Tim Jones
Chief Financial Officer

"On a statutory basis, loss before tax for the year was £(42)m (FY 2020 loss £(123)m), on sales of £1,065m (FY 2020 £1,475m)."

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

	Statutory		Adjusted[a]	
	FY 2021 £m	FY 2020 £m	**FY 2021 £m**	FY 2020 £m
Revenue	**1,065**	1,475	**1,065**	1,475
Operating profit	**81**	8	**29**	99
Loss before tax	**(42)**	(123)	**(94)**	(32)
Loss per share[1]	**(11.5)p**	(23.6)p	**(13.6)p**	(5.7)p
Operating margin	**7.6%**	0.5%	**2.7%**	6.7%

1. Loss per share for the comparative periods have been restated to reflect the bonus element of the Open Offer share issue completed on 12 March 2021.

The financial performance across both years has been significantly impacted by restrictions on trading and national shutdowns in response to the Covid-19 pandemic, in both the UK and Germany.

At the end of the period, the total estate comprised 1,732 sites in the UK and Germany of which 1,645 are directly managed.

Revenue

Total revenue of £1,065m (FY 2020 £1,475m) was lower than last year due to restrictions on trading in response to Covid-19. Figures include the benefit of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales worth £81m (FY 2019 £31m).

FY 2021 contained 18 weeks of enforced closure (defined as trading weeks where more than 90% of our estate was closed) and a further five weeks of outdoor trading only from 12 April to 16 May. The majority of our estate has been fully open for trading since 17 May and sales have gradually strengthened over this period as restrictions were relaxed.

The sales have been compared to FY 2019, being the last full year pre-Covid-19. FY 2020 is not considered an appropriate comparison for trading performance due to the significant disruption caused to trade due to Covid-19 related restrictions and closures. As like-for-like sales[a] can only be measured when sites are trading the measure also excludes periods of closure in response to Covid-19.

Financial review continued

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

	Weeks 1–14 FY 2021	Weeks 15–28 FY 2021	Weeks 29–43 FY 2021	Weeks 44–52 FY 2021	**Weeks 1–52 FY 2021**
Drink	(39.7%)	Closure	(22.1%)	(9.5%)	**(21.6%)**
Food	(19.0%)	Closure	3.0%	16.7%	**2.5%**
Total	(28.9%)	Closure	(10.7%)	3.8%	**(9.6%)**
Proportion of estate open	49%	0%	76%	98%	**52%**

Across the year like-for-like sales[a] declined by (9.6)% with food sales[a] up by 2.5%, supported by reduced levels of VAT, and drink sales[a] down by (21.6)%. Against FY 2019, drinks volumes were in decline of (28.5%) reflecting the restrictions on solus drinking and the slower recovery of wet led brands particularly in larger city centres and outside of the higher energy younger pub and bar market. Food volumes, across the year, were in decline of (25.1%) with the increase in average spend per head reflecting the increasingly strong performance of premium offers.

For the eight weeks since the period end, like-for-like sales[a] against FY 2019 have increased by 2.7%, comprising an increase in like-for-like food sales[a] of 9.5% and a decrease of like-for-like drink sales[a] of (4.8)%. Volumes remain in decline of between 10% to 15%, with sales being driven by increases in spend per head and reduced VAT on food and non-alcoholic drink. Total sales in this period grew by 0.5%.

Separately disclosed items

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

In the period a decision of a First-Tier tribunal in the case of the Rank Group Plc against HMRC in relation to VAT on gaming income, for the period post-2005, was given in favour of the taxpayers. HMRC has subsequently confirmed that it will not appeal against the decision and will now pay valid claims. As a result, the Group has resubmitted a claim covering the period from 2005 to 2012 and an estimate of the amount receivable, including interest, of £20m has been recognised in the current period. In the prior period a similar claim for the period pre-2005 of £13m had been recognised.

A £38m net movement is recognised relating to valuation and impairment of properties, comprising a £51m impairment reversal arising from the revaluation of freehold and long leasehold sites, net of a £3m impairment in relation to freehold and long leasehold tenant's furniture and fittings, a £2m impairment of short leasehold and unlicensed properties and a £8m impairment of right-of-use assets.

A charge of £4m was recognised in relation to stock write-offs as a result of Covid-19 mandated closure[b] in the first half and a £3m past service cost in relation to guaranteed minimum pensions (GMPs) equalisation for the defined benefit pension schemes.

In addition to the tax impact of the above items, a £29m deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 10 June 2021, which increased the UK standard rate of corporation tax from 19% to 25% from 1 April 2023.

Operating profit and margins[a]

The significant impact of Covid-19 closures and restrictions resulted in an adjusted operating profit[a] of £29m (FY 2020 £99m). Throughout closure periods operating costs were kept to a minimum and over 99% of employees have been on furlough, amounting to £210m of UK Government support for employees through furlough grants during the period. Support to the Group itself continued in the form of a holiday from business rates, which was worth £75m in the period, and a reduction in the rate of VAT to 5% on non-alcoholic sales throughout the year which was worth £81m.

Operating margin, calculated on a statutory basis, of 7.6% was 7.1 percentage points higher than last year, materially impacted by property valuation and impairment reviews. Adjusted operating margin[a] was 4.0ppts lower than last year at 2.7%, impacted by the significant periods of closure and other trading restrictions in response to Covid-19.

Prior to the Covid-19 pandemic the business faced inflationary cost headwinds in the region of £60m to £65m per year. In the short term, cost pressures are expected to be higher than average due principally to recent escalations in energy costs.

Interest

Net finance costs of £120m for the year were £7m lower than last year, with annual amortisation reducing the value of securitised debt. The net pensions finance charge was £3m (FY 2020 £4m). The net pensions finance charge for next year is expected to be £2m.

A number of the Group's financial instruments had LIBOR as their reference rate. The Group has now 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, effective from 1 January 2022 and 1 July 2023 respectively.

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 originally arranged on a SONIA basis in February 2021, so did not require amendment.

Earnings per share

Basic loss per share, after the separately disclosed items described above, was (11.5)p (FY 2020 (23.6)p), adjusted loss per share[a] was (13.6)p (FY 2020 (5.7)p). Loss per share for comparative periods has been restated to reflect the bonus element of the Open Offer share issue (see note 2.5).

The basic weighted average number of shares in the period was 566m and the total number of shares issued at the balance sheet date was 597m, following the equity raise and subsequent issue of an additional 167m shares.

Cash flow

	FY 2021 £m	FY 2020 £m
EBITDA before movements in the valuation of the property portfolio	**182**	255
Non-cash share-based payment and pension costs and other	**13**	5
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	**195**	260
Working capital movement	**7**	20
Pension deficit contributions	**(52)**	(25)
Cash flow from operations	**150**	255
Capital expenditure	**(33)**	(108)
Net finance lease principal payments	**(41)**	(20)
Interest on lease liabilities	**(21)**	(8)
Net interest paid	**(104)**	(108)
Tax	**1**	(11)
Issue and purchase of shares	**341**	(1)
Other	**–**	1
(Repayment)/drawings under liquidity facility	**(9)**	9
(Repayment)/drawdown of term loan	**(100)**	100
(Repayment)/drawdown of revolving credit facilities	**(10)**	10
Net cash flow before bond amortisation	**174**	119
Bond amortisation	**(104)**	(95)
Net cash flow	**70**	24

The business generated £182m of EBITDA before movements in the valuation of the property portfolio.

Pension deficit contributions returned to committed levels, with FY 2020 lower due to an agreement with the schemes' Trustees to suspend contributions for six months to conserve liquidity during the period of shutdown in that year.

Share issue proceeds reflect the equity raise of £351m less £(9)m transaction fees, less (£1m) purchase of own shares.

After all outgoings including mandatory bond amortisation, cash flow generated was £70m (FY 2020 £24m).

Capital expenditure

Capital expenditure of £33m (FY 2020 £108m) comprises £29m from the purchase of property, plant and equipment and £4m in relation to the purchase of intangible assets. Capital expenditure was significantly below historic levels as part of the cash management strategy instigated in response to Covid-19.

	FY 2021		FY 2020	
	£m	#	£m	#
Maintenance and infrastructure	**14**		38	
Remodels – refurbishment	**9**	**21**	54	139
Remodels – expansionary	**1**	**2**	2	5
Conversions	**2**	**5**	13	23
Acquisitions – freehold	**7**	**2**	1	1
Acquisitions – leasehold	**–**	**–**	–	–
Total return generating capital expenditure	**19**	**30**	70	168
Total capital expenditure	**33**		108	

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 and fixtures and fittings. The overall property portfolio valuation has increased by £196m (FY 2020 decrease of £208m) reflecting £46m separately disclosed in the income statement and a £150m increase in the revaluation reserve.

Financial review continued

Pensions

The Group continues to make pension deficit payments as agreed as part of the triennial pensions valuation with the schemes' Trustees at 31 March 2019, which showed an actuarial deficit of £293m. It was agreed that the deficit would continue to be funded by cash contributions of £49m per annum indexed with RPI from 2016 to 2023. In 2024 an additional payment of £13m will be made into escrow, should such further funding be required at that time.

During FY 2020, the Group agreed with the Trustees that the contributions into the Mitchells & Butlers Pension Plan and the Mitchells & Butlers Executive Pension Plan would be suspended in respect of the monthly contributions for the six months to September 2020 and those contributions have been added onto the end of the agreed recovery plan such that those contributions will now be payable in 2023. During FY 2021, an additional agreement was reached with the Trustees to delay monthly contributions from January to March 2021, inclusive, with these now all having been paid.

Judgement has now been made in relation to the court hearing concerning the rate of inflation to be applied to pensions increases for certain sections of the membership of the Mitchells & Butlers Pension Plan in excess of the guaranteed minimum pension. This has held that there had indeed been an error and the rules should be rectified as requested by the Trustee to remove the Company's power to determine the rate at which pensions are increased and to re-insert the Trustee's power to change the index used for pension increases. This means that pensions will be increased in line with RPI unless or until the Trustee decides to exercise its power to switch to another index at some point in future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Net debt[a] and facilities

Following the adoption of IFRS 16 in the prior financial year, leases are now included in net debt. Net debt[a] at the period end was £1,783m, comprised of £1,270m non-lease liabilities and lease liabilities of £513m (FY 2020 £2,104m comprised of £1,563m non-lease liabilities and lease liabilities of £541m).

On 14 February, the Group reached agreement with its three relationship banks for a new £150 million three-year unsecured facility. In addition, extended waivers and then amendments 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 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. In addition, on completion of the Open Offer the full £100m of the CLBILS term loans was repaid. The details of these arrangements and an analysis of net debt can be found in notes 4.1 and 4.4.

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.

Further details can be found at https://www.mbplc.com/infocentre/debtinformation/

Significant Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies. 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. Judgements and estimates for the period relate to;

- going concern assessment (note 1)
- separately disclosed items (note 2.2)
- property, plant and equipment (note 3.1)
- leases (note 3.2)
- pensions (note 4.5)

Going Concern

After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and 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 the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either a further lockdown or of material restrictions being imposed on the Group's ability to trade is remote. Accordingly, the financial statements continue to be prepared on the going concern basis but with material uncertainty arising from the possible further impact of Covid-19 on the economy and the hospitality sector. Full details are included in note 1 to the financial statements.

Tim Jones

Chief Financial Officer
24 November 2021

Definitions

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 168 to 170 of this report.
b. Mandated closure is defined as more than 90% of the estate being closed.

Governance

In this section

Chairman's introduction to Governance

Bob Ivell
Chairman

"Dear fellow shareholder, I have pleasure in updating you on our progress in corporate governance over the past year."

During FY 2020, the Company had to deal with an unprecedented set of circumstances as Covid-19 impacted our business, the UK economy and the world. The effects of the pandemic continued into FY 2021 and the repeated lockdowns had an enormous effect on our business, resulting in us having to approach shareholders to strengthen our balance sheet by means of an Open Offer which took place in March 2021.

A full discussion of the adjustments made to our corporate strategy and the measures taken by the Board to mitigate the effects of Covid-19 on the business are given in the Chief Executive's business review on pages 12 to 15. The Corporate Governance Statement on pages 62 to 74 describes the existing governance arrangements already in place, with additional information where Covid-19 required changes to our usual practice.

As at 25 September 2021, the Company had more than 43,000 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 46, which sets out the Group's strategy, progress and performance for the year. Meanwhile, the implementation by the Company of the Board focused corporate governance aspects of the 2018 Code are reflected in the Corporate Governance Statement on pages 62 to 74, 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.

Phil Urban heads our climate change policy initiatives, and this subject is picked up in the Strategic Report. However, this important area remains a responsibility of the entire Board and, in order to manage and monitor the Group's approach in detail, the Corporate Responsibility Committee.

During the year, the Board as a whole continued to work together to deal with the many and varied challenges posed by the restrictions arising from the pandemic, together with the continued drain on cash resources from a business which required maintenance with no income to support it. I am deeply grateful both to the Board and all our employees who pulled together so magnificently to remain steadfast in such difficult circumstances.

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. Colin Rutherford and Imelda Walsh, who joined us in 2013, stepped down from the Board on 19 July 2021, and Ron Robson who joined us in 2010, stepped down from the Board on 31 July 2021. I would like to thank all three of them for their dedicated service over the years they were with us, and for their unwavering support, particularly during the course of the pandemic.

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, and with the exception of Covid-19 emergency arrangements, most of the basic governance arrangements already in place are unchanged since FY 2019 which was the last full year prior to the enforced lockdown resulting from the pandemic. These arrangements are replicated in this year's report, as the Board was very firm in its view that a stable Board was the highest priority in a time of crisis. Consequently, certain aspects of non-compliance with the 2018 Code could not be, and were not, addressed in FY 2020 and this continued into FY 2021. These deviations from the 2018 Code are fully explained on page 66 in the Corporate Governance Statement.

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. However, while the Board considered commissioning such a review, it was decided that the interests of shareholders would be better served by the Board focusing instead on restarting the business following the pandemic and consequently no external evaluation took place in respect of FY 2021. 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.

Due to the constraints experienced by the Board during FY 2021 and the need to focus attention on the re-establishment of the Group's business, no appraisal of my performance was carried out in FY 2021 although all Directors have the ability to raise any views which they have direct with the Senior Independent Director if they feel this is needed. This will be reconsidered in FY 2022.

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 Chairperson 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.

The Annual General Meeting will be held in January 2022. This year, in view of the continuing uncertainty at the time of preparing this report as to the possibility of infection, we intend to hold a hybrid AGM with the ability for shareholders to participate remotely online as opposed to physical attendance only. The arrangements for holding the AGM will depend on Covid-19 restrictions which are in force at the relevant time and are set out in detail in the separate Notice of AGM published with this Annual Report, though we urge shareholders to consult our website in case any last-minute changes to the arrangements have to be made.

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

Board of Directors

A strong leadership team

Bob Ivell
Non-Executive Chairman
R,N,M,C,P

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
M,E,P

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
M,E,P

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.

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

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
Independent Non-Executive Director
A,R,N,C

Appointed as an independent Non-Executive Director in February 2016, Dave is the CEO 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
N,C

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.

Board of Directors *continued*

Josh Levy
Non-Executive Director
R,P

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
Independent Non-Executive Director
A,R,N,C,M

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 Director of NG Bailey Group Limited, Quarto Group Inc. and Martin's Investments Limited. Jane was previously a senior advisory partner with KPMG LLP. Jane is Chair of the Audit Committee.

Susan Murray
Senior Independent Director
A,R,N,C

Appointed as Senior Independent Director in March 2019, Susan has served on the boards of Compass Group plc, Pernod Ricard SA, Imperial Brands plc, Wm Morrison Supermarkets plc and EI Group plc and is a former Council Member of the Advertising Standards Authority. She is currently a Non-Executive Director, and Chair of the Remuneration Committee of each of Hays plc and Grafton Group plc, and a member of the supervisory board of William Grant & Sons Holdings Limited. In her executive career, amongst other roles, Susan was Director of International Marketing of Grand Metropolitan's IDV business, Worldwide President and Chief Executive of Smirnoff's vodka business and subsequently was Chief Executive of Littlewoods.

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

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 2021, the Board is reporting under the 2018 Code. Further information is set out in the Strategic Report which examines the 'purpose' aspect of the 2018 Code and in the Corporate Governance Statement, which describes the Company's culture 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 25 September 2021. The Business review and Sustainability review of the Company and its subsidiaries are given on pages 12 to 15 and pages 20 to 21 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 32 to 39 and 73 to 74, 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 30 and 31.

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 22 to 25 and in the s.172 statement set out on page 41.

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 46 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 2021, 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.

These periods of closure and of the application of operating restrictions are a matter of public record and, in this Report, we will not repeat them.

Importantly, however, at the end of FY 2021 and continuing through to the date of this Report those mandatory closure requirements and operating restrictions had been relaxed such that the operating and trading environment of the Group's businesses had (and continues to have) in all material respects returned to the normal pattern of activities which existed prior to the Covid-19 pandemic.

A full list of the Company's subsidiaries and their respective country of operation is given on page 160 of the Annual Report.

Share capital and voting rights

The Company's issued ordinary share capital as at 25 September 2021 comprised a single class of ordinary shares of which 596,618,849 shares were in issue and listed on the London Stock Exchange (26 September 2020 429,201,117 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 2,667,858 shares. Details of movements in the issued share capital can be found in note 4.7 to the financial statements on page 157.

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.

The Group's liquidity position deteriorated significantly during the year as a result of the impact of the Covid-19 pandemic and accordingly on 22 February 2021 the Company announced an underwritten fully pre-emptive Open Offer to raise up to £351 million, in order to provide the Company with the capital to reduce its unsecured debt and to support the Group's secured debt financing through an injection of equity, allowing the Group to meet its fixed obligations. The basis of the Open Offer was 7 new Open Offer shares for every existing 18 shares held, at an offer price of 210p. On 11 March 2021 the Company announced the results of the Open Offer and on 12 March 2021 a total of 166,911,444 new ordinary shares were allotted to Qualifying Shareholders. The gross proceeds of the Open Offer were £350,514,032.40.

During the year, shares with a nominal value of £43,245 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 on page 92 in the Report on the Directors' remuneration.

Directors' report continued

Dividends

No Final Dividend will be paid in respect of the financial year ended 25 September 2021 (FY 2020 nil). No Interim Dividend was paid during the year (FY 2020 nil).

On 14 February 2021, the Group reached agreement with its three relationship banks for a new £150 million three-year unsecured facility. In addition, extended waivers and amendments 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. 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 25 September 2021, 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 25 September 2021

Shareholder	Ordinary Shares	% of share capital*	
Odyzean Limited**	338,833,695	56.79%	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

* Based on the total voting rights figure as at 25 September 2021 of 596,618,849 shares.
** As the parent company of each of Piedmont Inc., Elpida Group Limited and Smoothfield Holding Ltd.
Percentages are rounded to two decimal places.

No changes took place between 26 September 2021 and 24 November 2021.

Directors

Details of the Directors as at 24 November 2021 and their biographies are shown on pages 50 to 52. The Directors as at 25 September 2021 and their interests in shares are shown on page 92.

During the year, Colin Rutherford and Imelda Walsh both stepped down from the Board on 19 July 2021 and Ron Robson stepped down from the Board on 31 July 2021.

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 re-election.

Major shareholder Board representation and relationship agreement

From the start of FY 2021 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 then confirmed that its priority was to ensure that the Company was re-capitalised and that the future of the business secured, pursuant to which it intended to take up its rights under the Open Offer to the fullest extent possible. It further 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 are 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 without which, the prospects for the business, its 1,732 outlets, and over 43,000 UK and German employees would have been bleak. 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 nominated 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. That 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 Limited, 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 Limited 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.

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 2021 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

Employment policies

The Group employed an average of 39,853 people in FY 2021 (FY 2020 44,466). 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.

Directors' report continued

Employee engagement

Details of how the Company addressed employee engagement and wellbeing issues, along with workplace arrangements, arising from the disruption caused in FY 2021 by the Covid-19 pandemic are set out in the summary of Covid-19 responses in the Purpose in Action section of the Strategic Report and on page 63.

Mitchells & Butlers engages with its employees on a regular basis and in a number of ways to suit their different working patterns. This 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;
- employee social media groups; and
- a monthly magazine poster, Frontline News, for the retail estate.

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 Company awards and providing feedback on values and behaviours, employee development and upskilling and ensuring that feedback is listened to and acted upon where appropriate. The Board envisage that the employee voice role will become more active in the coming year as the business recovers from the impact of the pandemic and that the insight Dave Coplin is able to provide will be very helpful to the Board in understanding the views of employees.

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 2021 these updates have focused on the ongoing response to the pandemic and, in particular, workforce planning, employee engagement and wellbeing and the reinvigoration of our apprenticeship strategy. 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 polices and the views of employees in relation to Executive pay can be found on page 86.

During the Covid-19 pandemic, the Chief Executive, Phil Urban, has given fortnightly updates to the whole of the Group's workforce on how the Group has been dealing with the challenges, and opportunities, arising from the effect of closures and reopenings of the Company's trading sites and central offices. These updates were available to all employees, including those on furlough.

We provide opportunities for employees to give their feedback to the Company in a number of ways, from team or shift meetings in restaurants, bars and pubs 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 published in Frontline News and online.

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 an ever more important factor 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 is clear that as a result of Covid-19 many employees have begun to reassess what is important to them and their work. 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 will therefore be 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. These plans were temporarily suspended during FY 2020 due to over 99% of the Company's workforce being furloughed during the launch window, but were resumed in FY 2021.

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.

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. During FY 2021, no shares in the Company were purchased in the market by the employee benefit trust, but the trust was allotted a total of 277,144 shares on 12 March 2021, having taken up its entitlement pursuant to the Open Offer.

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 2022 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

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. Further to the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Audit Committee put plans in place to carry out a competitive audit tender in 2020, in respect of the financial year ending in 2021 to ensure the continued objectivity, independence and value for money of the statutory audit. However, given Government advice related to the unprecedented implications of Covid-19, the Committee concluded that it should seek FRC approval to reappoint Deloitte for one further year, and undertake the audit tender process in 2021. This approval was received on 5 October 2020.

A competitive audit tender then took place in June 2021, following which KPMG LLP was selected to become the auditor to the Company in respect of FY 2022. Accordingly, a resolution to confirm the appointment of KPMG LLP will be put to the Annual General Meeting in January 2022.

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 year as part of the Open Offer and refinancing). Further information regarding these arrangements is set out on page 46 and is also included in note 4.1 to the financial statements on page 138. 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 40 (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 111.

The Group prepares a rolling daily cash forecast covering a six-week period, a fortnightly 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 has 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.

Directors' report continued

Going Concern

After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and 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 the future incidence of the pandemic the Directors are unable to conclude that the prospect of either a further lockdown or of material restrictions being imposed on the Group's ability to trade is remote. Accordingly, the financial statements continue to be prepared on the going concern basis but with material uncertainty arising from the possible further impact of Covid-19 on the economy and the hospitality sector. Full details are included in note 1 to the financial statements.

Events after the balance sheet date

The post-balance sheet date events are referred to at note 5.3 of the Group's financial statements on page 161.

Greenhouse gas ('GHG') emissions statement

New climate-related disclosures are required in FY 2022 and the reporting aspects are discussed in depth in the Corporate Governance Report on pages 72 and 73. Our climate change policy initiatives are dealt with in the Strategic Report.

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.

GHG emissions per £m turnover increased by 0.9% from a location base and reduced by 42.2% from a market base during FY 2021 in comparison to FY 2020 due to four key factors:

1. Although the UK lockdown during the global pandemic led to our sites being closed to the public, most of the portfolio has in-house managers and landlords resulting in the need to heat and light these properties. This led to a similar level of operations with a significant reduction in turnover resulting in negative impact on our intensity ratio.
2. Our approach during the lockdown was to offer take-out services once the initial lockdown measures had eased. This led to a similar level of operations with a reduction in turnover impacting on our intensity ratio.
3. As part of our commitment to carbon reduction we have switched our Scope 2 purchased electricity to green, REGO-backed supplies leading to a significant reduction in market-based emissions.
4. Our continued focus on deploying energy efficiency measures and actions during the lockdown mitigated the impact of the loss of turnover against our intensity ratio resulting in only a minor increase.

Table 3: Mitchells & Butlers' carbon reporting disclosure

Assessment parameters	
Assessment year	FY 2021
Consolidation approach	Financial control
Boundary summary	All bars and restaurants either owned or under operational control during FY 2021 were included.
Scope	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: **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. **Scope 2** – GHG emissions from the generation of purchased electricity used during kitchen activity and for lighting, heating and cooling. **Scope 3** – indirect emissions because of the activities of the Group but occurring from sources not owned or controlled by the Group. This assessment focuses on Scope 1 and 2 emissions only (Scope 3 is optional under the current regulations).
Consistency with the financial statements	Scope 1 and 2 emissions are reported for both FY 2021 and FY 2020 on a financial year basis. Franchise sites are excluded as they are responsible for arranging and paying for their own energy. Alex sites in Germany are included. Emissions are based on UK-average emissions multiplied by the number of Alex sites. These sites make up the non-UK aspect of this report.
Exclusions	**Scope 1** – wood, coal and charcoal are excluded because collectively they amount to less than 1% of total emissions which falls below the materiality threshold. **Scope 1** – corporate mileage is excluded because collectively it amounts to less than 1% of total emissions which falls below the materiality threshold.
Emission factor data source	All carbon emission factors used are sourced from the UK Government GHG conversion factors for company reporting 2021.
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	**Scope 1** – Fugitive Emissions are estimated on the basis of industry benchmarking.
Intensity threshold	Emissions are stated in tonnes CO_2e 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.
Target	Emissions during FY 2020 are provided for comparative purposes.

Energy efficiency action taken

Throughout the global pandemic and subsequent lockdown phases in the UK we have provided energy efficiency guidance and support to our managers to help mitigate energy and emissions from our sites. The lockdown phases led to a halt of our overall energy efficiency programme and deployment of measures, and we are expecting an increase in activity in this area in the following year as lockdown measures ease.

Commentary

Location and market based reporting methodologies are used due to Scope 2 emissions being derived from REGO backed electricity purchasing within the UK portfolio. For transparency we have reported two intensity ratios; a location-based ratio for both Scope 1 and 2 emissions and a market-based ratio with Scope 2 emissions removed to account for the purchasing of REGO backed electricity.

Directors' report continued

Global GHG emissions and energy use data for FY 2021

	Current reporting year FY 2021			Comparison reporting year FY 2020			
	UK and offshore	**Global (excluding UK and offshore)**	**Total**	UK and offshore	Global (excluding UK and offshore)	Total	% Change year-on-year
Scope 1 tCO_2e	**60,234**	**1,652**	**61,886**	78,000	1,936	79,936	-22.6%
Scope 2 tCO_2e	**45,205**	**1,240**	**46,445**	62,963	1,595	64,558	-28.1%
Total Scope 1 & 2 emissions tCO_2e (location based)	**105,439**	**2,892**	**108,331**	140,963	3,531	144,494	-25.0%
Total Scope 1 & 2 emissions tCO_2e (market based)*	**60,371**	**2,892**	**63,263**	–	–	–	–
Energy Consumption used to calculate the above emissions: kWh	**512,119,253**	**14,048,159**	**526,167,412**	659,958,694	16,556,529	676,515,223	-22.2%
UK Intensity Ratio: tCO_2e/turnover(£m) – (location based)**	**–**	**–**	**98.9**	–	–	98.0	0.9%
UK Intensity Ratio: tCO_2e/turnover(£m) – (market based)**	**–**	**–**	**56.6**	–	–	98.0	-42.2%

* Note that a market based emissions total was not reported in FY 2020 so comparison is unavailable.
** Intensity ratio is based on the turnover for the financial year of £1,065m.

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.

Greg McMahon
Company Secretary and General Counsel
24 November 2021

Directors' responsibilities statement

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

Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 24 November 2021 and is signed on its behalf by:

Tim Jones
Chief Financial Officer
24 November 2021

Corporate governance statement

Bob Ivell
Chairman

"This Corporate Governance Statement sets out our report to shareholders on the status of our corporate governance arrangements."

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 2021 Annual Report and Accounts (of which this Corporate Governance Statement forms part) and which is available online at: www.mbplc.com/investors

This includes a statement on the Company's reaction to the Covid-19 pandemic and measures taken to ensure the safety of the business and its guests which may be found on pages 12 to 15 of the Strategic Report. Additional corporate governance measures were also implemented during the financial year in order to monitor the changing situation and ensure compliance with the legal obligations arising therefrom.

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 November respectively, and by way of other announcements as required. The content of these updates is available by webcast on the Company's website, 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, 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 March 2021 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 re-election of Bob Ivell, Eddie Irwin, Josh Levy and Ron Robson 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

While it is understood that the votes against were the result of Board and Committee composition in the case of the Chairman, and the status as representatives of our two largest shareholders for the remaining three Directors concerned, the Company continues to believe that the statements made in that response remain true. Further, the response required to deal with the threat posed to the business by Covid-19 means that further changes to the Board are not currently being considered.

Colin Rutherford and Imelda Walsh both stepped down from the Board on 19 July 2021 and Ron Robson stepped down from the Board on 31 July 2021. 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 65.

Corporate governance arrangements during FY 2021 in response to the continued Covid-19 pandemic

In its 2020 Annual Report the Company set out in detail how it had discharged its governance arrangements during the period from March 2020 onwards up to and including the date of publication of that report in the context of the adjustments which were required to address the challenges of the Covid-19 pandemic. In this section, the Company sets out how such arrangements were discharged during FY 2021 which was, of course, also significantly affected by the same or similar challenges.

Clearly, during the financial year there were two separate periods of enforced closure of the Group's businesses in England, Wales, Scotland and Northern Ireland together with various periods of mandatory closure in respect of its ALEX business in Germany.

The principal impact of these closure periods was during November 2020 and then from the start of January 2021 leading to a phased reopening of the Group's businesses in England, Scotland, Wales and Northern Ireland at various times, and with various levels of restrictions, in the period from April 2021 to August 2021 and, similarly, for the German businesses over a period from May 2021 onwards.

Before these closures and between the closure periods and as the phased reopening was permitted, the relevant authorities also mandated various sets of operating restrictions in a series of 'Tiers' or 'Levels' or similar phases which differed across all the jurisdictions concerned both in terms of extent and the times when they came into operation or were adjusted.

During the financial year, the United Kingdom's transition period for its exit from the European Union ended on 31 January 2021. Whilst that was during a period when the Group's businesses were subject to Covid-19 pandemic closure requirements and so the immediate impact on operations was mitigated, there was, nonetheless, a significant amount of preparatory work undertaken by the Group in the period leading up to that exit date to secure supplies and continuity of the availability of staff.

After the removal of the majority of the pandemic-related restrictions, the Group also faced difficulties in addressing supply chain shortages due to a national lack of available drivers and the closure of its trading sites due to staff being required to isolate following a notification from NHS Test and Trace. These two challenges remain as at the date of publication of this report.

All of these matters led to a very confused environment in which to conduct the Group's activities. Therefore, the governance regime which had existed throughout the second half of FY 2020 (as set out on pages 59 to 61 in the 2020 Annual Report) remained largely in place throughout FY 2021.

In summary, the Board continued to maintain its regular set of scheduled meetings together with some additional meetings required to give effect to the Open Offer which closed in March 2021. These meetings were conducted virtually up until the Board and Audit Committee meetings held in September 2021, which were the first physical meetings since early March 2020.

The Chief Executive Officer, Phil Urban, provided a weekly written report to the Board during the periods of closure setting out the key developments relating to the Group's businesses and trading relationships and its arrangements with other stakeholders such as suppliers, landlords, the Trustees of the Group's pension schemes, and the lobbying activities of UK Hospitality with the UK Government on behalf of the industry.

The Remuneration Committee and the Audit Committee carried on with their scheduled meetings and agreed work programmes although, as there were no formal matters for it to consider, there were no meetings of the Nomination Committee.

The details of the numbers of meetings of the Board and the Audit and Remuneration Committees in the period, are set out on page 68.

The Executive Committee which is the principal operational decision-making forum of the Group, continued with its monthly cycle of meetings with a full agenda of both pandemic-related and 'business as usual' issues. The output of the Executive Committee meetings is also 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 (including agreed temporary suspensions of contributions payable to the Trustees of the Group's pension schemes).

From December 2020 to May 2021 the Chairman, Chief Executive, Chief Financial Officer and the Company Secretary and General Counsel met virtually each week to assess developments, particularly in relation to the Company's financing arrangements, to ensure that any potentially announceable events were identified and dealt with appropriately under the Disclosure Guidance and Transparency Rules and the Listing Rules, with, as required, input from the Company's external legal advisers.

On a weekly basis, the Covid-19 Steering Committee which had been established in March 2020 and continued in operation, met to deal with emerging and developing issues which arose from the operational restrictions imposed upon the Group and to ensure appropriate communication with employees, to monitor industry lobbying efforts with Government, to manage relationships with suppliers and to ensure appropriate action was taken and resources made available to protect the business and its assets. The work of that Steering Committee and its decisions and actions in relation to the management of the pandemic's impact on the Group were included in the weekly report by the Chief Executive Officer to the Board. This Steering Committee continued to meet weekly until September 2021.

At the various times when it became clear that the Group's businesses were likely to be able to reopen, the separate Reopenings Review Group (which was referred to in detail in the 2020 Annual Report) was re-established to oversee the detailed arrangements for safe and effective reopening of the Group's trading sites in the UK. Similar arrangements were also implemented in Germany.

In addition to all of these activities, the Chief Executive Officer continued to issue a fortnightly briefing note to all employees via the Company's intranet which explained the current position, the Company's expectations looking forward and set out not only the issues faced by the business but how it was intending to deal with them. These updates were available to all employees, whether or not on furlough.

Overall, the governance arrangements set out in the 2020 Annual Report were continued throughout FY 2021 with adjustments and flexibility to reflect the often-changing operating and trading environment in which the Group operated throughout FY 2021.

Corporate governance statement continued

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, which are now intended to be held virtually and this will enable all employees to participate in the various activities and workshops.

During periods of lockdown the business operated with a skeleton team of support centre employees. During the reopening phase the Retail Support Centre and other offices gradually reopened in line with Government guidance and additional safety measures were put in place to provide employees with further reassurance. These included a pre-booking facility for office attendance, enhanced cleaning and regular lateral flow testing.

Ahead of reopening in April employees were invited to participate in a survey in order to assess any concerns they may have had in relation to returning to work and this enabled reopening plans to developed.

Corporate governance code reporting

For FY 2021, 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 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 71 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 continued during FY 2020 and FY 2021, though progress was necessarily 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. Due to lockdown restrictions no meetings were held in FY 2021. The next meeting is scheduled for Spring 2022. 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 agenda includes an overview of how executive pay is aligned with the Company's strategic objectives. The Terms of Reference of the Employee Forum reflect this. Meetings of the Employee Forum will recommence in early 2022, having been postponed following closure of the business in March 2020.

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 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 40 to 42.

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 on page 1.

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 this are given in the Strategic Report on pages 10 to 46.

c. Training and awareness
There is an induction process for all Directors on appointment and the 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.

This process continued in FY 2021 and, in particular, during FY 2021, the Board received specific focused training sessions on two occasions from its external legal advisers, Freshfields Bruckhaus Deringer LLP, on their duties and responsibilities generally, which was a refresher session building on a similar training event in the preceding year and a bespoke training programme related to the Company's issue of a Prospectus pursuant to the Open Offer made in February 2021. As part of the review and refreshing of the roles and responsibilities of subsidiary Directors at the outset of the Covid-19 disruption and the closure of the Group's businesses, a bespoke training session for subsidiary company Directors was presented by the Group's legal advisers, Freshfields Bruckhaus Deringer LLP.

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 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. 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
Following three of the Board's Non-Executive Directors stepping down in July 2021, the Board is currently comprised of nine members. 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 are female, one of whom is also the Senior Independent Director. Also, the Chairman, Bob Ivell, has served on the Board since May 2011.

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 independent 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 continued to be made in the early part of FY 2020 but this process was put on hold from late March 2020 when over 99% of the Company's employees were furloughed during Covid-19 restrictions and this situation continued into FY 2021. As the Group's business and activities have gradually returned to a degree of normality, this programme has now been resumed.

Gender Pay Gap data is already overseen by the Remuneration Committee and details are set out on page 84 of the Report on the Directors' remuneration.

4. Proportionate executive remuneration

This is dealt with on pages 84 and 94 of the Report on the Directors' remuneration.

Corporate governance statement continued

Corporate governance

The Board is committed to high standards of corporate governance. The Board considers that the Company has complied throughout the year ended 25 September 2021 with all the Provisions and best practice guidance of the 2018 Code except certain specific aspects related to Board composition and the constitution of Board Committees. This Corporate Governance Statement addresses the small number of 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 75 to 78 and page 70 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 2021. 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 per cent. 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 65.

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 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, which therefore allowed him to co-ordinate the Board's oversight of the senior executive team's response to the pandemic, was the correct one.

The uncertainties about the effect of Covid-19 on the hospitality industry and Mitchells & Butlers in particular continued well into 2021, and therefore the Board's view, supported by the Odyzean Group and the Executive Directors, is that this is not an appropriate time for the Board to be considering changes in the existing arrangements as the stability which the current position engenders, together with 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 how it has addressed these events.

The above represents the Company's position in relation to Provision 19 of the 2018 Code on Bob Ivell's Chair tenure, but in any event, the Board considered it essential to have a stable and experienced Board while dealing with the emergency measures required to deal with the ongoing effects of Covid-19, and so no further consideration was given to Provision 19 of the 2018 Code during FY 2021. 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 per cent. 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, 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. Ron Robson, a shareholder representative of Piedmont Inc., stepped down from the Board on 31 July 2021, though the Company is not aware of any further changes being proposed to the shareholder representative profile of the Board in the immediate future.

3. Constitution of Committees

Throughout FY 2021, 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 2021, 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 in the period following Colin Rutherford and Imelda Walsh leaving the Board on 19 July 2021, and ceased following Ron Robson leaving the Board on 31 July 2021, which decreased the number of non-independent Directors on the Nomination Committee. At the year end of 25 September 2021, 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 the relevant Provisions of the 2018 Code. Provision 24 of the 2018 Code specifies that the Audit Committee should consist of independent Non-Executive Directors and, for part of the year, the Audit Committee included the presence of representatives of major shareholders who are members of the Odyzean Group. Ron Robson (who represented Piedmont Inc.) and Eddie Irwin (who represents Elpida Group Limited) stepped down from the Audit Committee on 31 July 2021 and 9 September 2021 respectively, and consequently at the year end of 25 September 2021, 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 representatives of major shareholders who are members of the Odyzean Group. In September 2021, Eddie Irwin stepped down from the Remuneration Committee, but it remains non-compliant as Josh Levy, a representative of Piedmont Inc., is a member of the Committee. As set out on page 55, 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 these arrangements and has concluded that they constitute a valid exception under the 'Comply or Explain' regime of the 2018 Code, in that the shareholders concerned are committed to the progression and growth of the Company, have made a substantial financial commitment and are fully supportive of the Group's strategy. 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 66, the Chairman, has kept the skills, contributions and experience of the Board members under close review throughout FY 2021.

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, the Board took the decision not to proceed with an evaluation during FY 2021, 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 2022.

The information required by Disclosure Guidance and Transparency Rule ('DTR') 7.1 is set out in the Audit Committee report on pages 75 to 78. 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 53 to 60.

Board composition

The Board started the year with 12 Directors. During the year Colin Rutherford, Imelda Walsh and Ron Robson resigned and the table on page 68 lists the composition of the Board during the year.

As indicated on page 65, 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 as, it is hoped, the effects of the Covid-19 pandemic lessen over time.

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 2021 there were 17 Board meetings, which were more Board meetings than would be typical. This was due to the need for additional Board meetings to consider the refinancing arrangements, including the Open Offer, which were implemented in the year and the implications of the imposition of restrictions on operations and the closures, lockdowns and subsequent reopening of the business which occurred during the period. More details of the governance arrangements during the Covid-19 disruption are set out on page 63. There were also five meetings of the Audit Committee and five meetings of the Remuneration Committee but, due to there being no formal matters for it to consider, no meeting 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.

Except as noted in the table on the following page, full attendance was recorded for all Directors in respect of all Board and Committee meetings during FY 2021, 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. However, due to the constraints on meetings during FY 2021, these meetings have been limited to only one physical meeting in FY 2021 although there has been regular dialogue between the Board members, facilitated by the Chairman, throughout the financial year.

There are nine Board meetings currently planned for FY 2022.

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.

Corporate governance statement continued

Attendance levels at Board and Committee meetings

Directors who served during the year	Board	Audit Committee	Remuneration Committee	Nomination Committee
Bob Ivell	17 (17)	n/a	5 (5)	n/a
Keith Browne	17 (17)	n/a	n/a	n/a
Dave Coplin	17 (17)	5 (5)	5 (5)	n/a
Eddie Irwin (*stepped down on 9 September 2021)	17 (17)	5 (5)*	5 (5)*	n/a
Tim Jones	17 (17)	n/a	n/a	n/a
Josh Levy	17 (17)	n/a	5 (5)	n/a
Jane Moriarty	17 (17)	5 (5)	5 (5)	n/a
Susan Murray	17 (17)	5 (5)	5 (5)	n/a
Ron Robson (resigned 31 July 2021)	15 (16)	4 (4)	n/a	n/a
Colin Rutherford (resigned 19 July 2021)	15 (15)	4 (4)	5 (5)	n/a
Phil Urban	17 (17)	n/a	n/a	n/a
Imelda Walsh (resigned 19 July 2021)	14 (15)	4 (4)	5 (5)	n/a

Mr Robson was unable to participate in the Board meeting held on 19 February 2021 as it was convened on short notice and he had another pre-existing and unavoidable work commitment. Ms Walsh was not able to participate in the meeting held on 22 April 2021 due to a pre-existing medical appointment. Both Directors submitted apologies in advance of the relevant meeting and passed their respective comments on the matters to be considered by the Board at the relevant meeting, to the Chairman and the Company Secretary and these were reported to, and included in the consideration of those matters by, the Board.

Directors

The following were Directors of the Company during the year ended 25 September 2021:

Directors who served during the year		Date appointed	Date of change of role
Bob Ivell	Independent Non-Executive Director[1]	09/05/11	14/07/11
	Interim Chairman[1]	14/07/11	26/10/11
	Executive Chairman	26/10/11	12/11/12
	Non-Executive Chairman	12/11/12	–
Keith Browne[2]	Non-Executive Director	22/09/16	–
Dave Coplin	Independent Non-Executive Director	29/02/16	–
Eddie Irwin[2]	Non-Executive Director	21/03/12	–
Tim Jones	Chief Financial Officer	18/10/10	–
Josh Levy[3]	Non-Executive Director	13/11/15	–
Jane Moriarty	Independent Non-Executive Director	27/02/19	–
Susan Murray	Independent Non-Executive Director and Senior Independent Director	08/03/19	–
Ron Robson[3]	Non-Executive Director	22/01/10	(stepped down from the Board 31 July 2021)
	Deputy Chairman	14/07/11	(stepped down from this role 31 July 2021)
Colin Rutherford	Independent Non-Executive Director	22/04/13	(stepped down from the Board 19 July 2021)
Phil Urban	Chief Executive	27/09/15	–
Imelda Walsh	Independent Non-Executive Director	22/04/13	(stepped down from the Board 19 July 2021)

1. Independent while in the role specified.
2. Nominated shareholder representative of Elpida Group Limited.
3. Nominated shareholder representative of Piedmont Inc.

At the start of the year, the Board was made up of nine male and three female Directors. Colin Rutherford and Imelda Walsh stepped down from the Board on 19 July 2021 and Ron Robson stepped down from the Board on 31 July 2021. 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 2022, all Directors will be required to stand for annual re-election, in accordance with the Company's Articles of Association. Their biographical details as at 24 November 2021 are set out on pages 50 to 52, 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 2021, 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 71) 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 66.

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 became Senior Independent Director immediately upon her appointment to the Board on 8 March 2019.

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. Susan Murray 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. Due to the constraints experienced by the Board during FY 2021 and the need to focus attention on the re-establishment of the Group's business, no such appraisal was carried out in FY 2021. This will be reconsidered in FY 2022. However, 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 Susan Murray.

Other than their fees, and reimbursement of taxable expenses which are disclosed on page 88, the Non-Executive Directors received no remuneration from the Company during the year.

With effect from 1 January 2022, the base fee for Non-Executive Directors will remain at £53,000 per annum, the fee paid to Non-Executive Directors for chairing a Committee or for the role of Senior Independent Director will remain at £13,000 per annum, and the fee paid to Dave Coplin for his role as the Board representative for 'employee voice' will remain at £13,000 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 Company Secretary and General Counsel, 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 Company Secretary and General Counsel.

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 75 to 78 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 the Directors' remuneration on pages 79 to 96. The Remuneration Committee report has been signed by the Chairman, Bob Ivell, following the resignation of Imelda Walsh, who was Chair of the Remuneration Committee. The Board is undertaking a search for a replacement and will appoint a suitable candidate once their search is concluded. Any appointment will be made with due consideration for the Davies Report, the Hampton-Alexander Review and the best practice recommendations of the UK Corporate Governance Code. Notwithstanding this, all Board and Committee appointments will always be made on merit.

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 25/09/21
Bob Ivell (Chair)	11/07/13	Yes
Dave Coplin	29/02/16	Yes
Eddie Irwin	11/07/13	Yes
Jane Moriarty	27/02/19	Yes
Susan Murray	08/03/19	Yes
Ron Robson (resigned 31 July 2021)	11/07/13	No
Colin Rutherford (resigned 19 July 2021)	11/07/13	No
Imelda Walsh (resigned 19 July 2021)	11/07/13	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 46% female and 54% 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 71.

Although there were no formal meetings of the Committee in the year, through dialogue amongst the Committee members, the Committee considered the composition of the Board. 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.

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 65, 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. 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, the proportion of women on the Board was 25% up until 19 July 2021, when Imelda Walsh stepped down from the Board. Colin Rutherford also stepped down from the Board on the same date and Ron Robson stepped down from the Board on 31 July 2021, as a result of which the Board reduced to nine members of which two were female, leaving the proportion of women on the Board at the year-end as 22%. 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 65.

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 section on page 26.

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/businessconduct/boardcommittees/

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, Susan Murray, Jane Moriarty and Dave Coplin. 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. Due to the disruption caused by the Covid-19 outbreak, the work of that team was largely paused from March 2020 until September 2020. However, its programme of work was recommenced in September 2020. On the business going into further lockdowns during FY 2021 only moderate progress has been made on these initiatives. More details of the activities involved in this programme during the financial year are set out on page 28.

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 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 2021 the work of the Pensions Committee focused primarily on the monitoring of the performance of the Group's pensions arrangements and the ongoing oversight of the Company's involvement in the application to court by the Trustee of the Mitchells & Butlers Pension Plan for rectification of the Trust Deeds and Rules of that plan as referred to at note 4.5 of the Group financial statements, which went to trial to June 2021. The Committee also oversaw the discussions with the Trustees of both the Mitchells & Butlers Pension Plan and the Mitchells & Butlers Executive Pension Plan for a suspension of contributions into those two schemes in respect of the period from January 2021 to March 2021, with those contributions being deferred until after the completion of the Open Offer.

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), Greg McMahon (Company Secretary and General Counsel), 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 Company Secretary and General Counsel. 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.

Corporate governance statement continued

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 2021 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

1. 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.

Last year's Strategic Report set out these principal measures but for FY 2021 it has been expanded to set out not only the principal measures and their progress since then, but also our future aims in this area.

New mandatory reporting and disclosure requirements

The Taskforce 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:

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.

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 the first Annual Report where reporting for the Company will be mandatory will be that for FY 2022). 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 has tasked Phil Urban with spearheading the Company's approach to tackling Climate Change reporting across the organisation and since he also chairs the Executive Committee, he will be ensuring focus at Executive Committee level. The Remuneration Committee has been tasked with considering appropriate targets over FY 2022 to ensure that executive management are driving the right outcomes at the pace that the Board wants to see.

Strategy
The Board is mindful of the business impacts relevant to the sector, and due consideration of such will be 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 will 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 will be a feature of future agendas, with priority being given to ensuring enough time is dedicated to the discussion. The Corporate Responsibility Committee has approved and recommended to the Board the Group's sustainability roadmap through which it has identified and agreed how to manage climate-related issues. These initiatives will continue to be addressed in FY 2022 in readiness for when TCFD compliance becomes compulsory for the Company.

Risk and Scenario analysis
During FY 2022, the Company will develop further a rigorous climate-change scenario impact analysis and this will be a matter which will be addressed in FY 2022. 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.

Information, reporting and assurance
The following aspects of the Company's readiness for TCFD reporting will be addressed during FY 2022:

- whether climate-related management information is robust and fit for purpose;
- 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 there 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 will be considered. Changes to annual report processes and reporting will be 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.

Corporate governance statement continued

- 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 Company Secretary and General Counsel and comprises Executive Committee members and other members of senior management from a cross-section of functions.

During the period of the closure of the Company's estate and business, the monitoring of risks was undertaken on a weekly basis by the Covid-19 Steering Committee, reporting each week to the Board through the Chief Executive as referred to in more detail in the Risks and uncertainties section on pages 32 to 39.

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 32 to 39.

More details of the work of the Risk Committee are included in the Audit Committee Report on pages 75 to 78.

- 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.

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.

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

Jane Moriarty
Chair of the Audit Committee

"On behalf of the Board, I present the report of the Audit Committee for the financial year ended 25 September 2021."

Introduction

I was appointed as Chair of the Audit Committee on 20 July 2021 after Colin Rutherford stepped down from the Board and also as chair of the Committee on 19 July 2021. I take this opportunity to thank Colin for the excellent work he has done in chairing this Committee and how, as a result, I was able to seamlessly pick up this role.

During the period, as the purpose and effectiveness of external and internal audit procedures came under increasing public scrutiny, the Committee 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 always very grateful for the detailed instruction these interactions provide and this, in turn, significantly assists towards the promotion and efficient execution of the Committee's oversight role, ensuring confidence in reporting to the wider Board.

The continued but changing impact of Covid-19 in relation to the overall governance and key controls operated across the business in a remote working environment presented significant challenges. Many of these were dealt with in FY 2020 but some new aspects emerged during the period. Therefore, in order to provide assurance to the Audit Committee that key financial controls continued to operate as expected, an independent review was again undertaken by the Group Risk Director. Findings confirmed that a good level of assurance continued, and no material weaknesses were identified. The outputs from this review were reported to senior management and to the Audit Committee, providing comfort that despite the Company furloughing a number of staff, coupled with the inherent risks associated with increased remote working, the implications were minimal and key controls were unaffected.

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 whole of the auditing and advisory process conveys confidence in their collective fieldwork conclusions.

It is also important to note the Committee's role in overseeing the well-considered provision of adequate resources by the Group, ensuring that any additional non-audit services required during the year were obtained where necessary and the Financial Reporting Council (FRC) and its evolving reporting requirements are adhered to.

Audit Committee report continued

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. 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 Mitchells & Butlers' 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 2021 Annual Report, the Audit Committee comprised three independent Non-Executive Directors: Jane Moriarty (Chair), Dave Coplin and Susan Murray. 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 50 to 52.

The Audit Committee continued to meet at least quarterly during FY 2021. 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 Company Secretary and General Counsel, the Group Risk Director and representatives of the external auditor, Deloitte 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 88.

Summary terms of reference

A copy of the Audit Committee's terms of reference is publicly available within the Investor section of the Company'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 2021. Accordingly, in FY 2021 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, 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 Company'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 Company's public statements on internal control, risk management and corporate governance compliance;
- review the Company's processes for detecting fraud, misconduct and control weaknesses and to consider the Company'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, Company 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 key 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 corporate employees which is consistent with the Company'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 Company management, either after consideration of the Company's major 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;
- reappointment and evaluation of the performance of the external auditor, including recommendations to the Board, for approval by shareholders, on the reappointment of the Company's auditor and on the approval of fees and terms of engagement;
- as set out in more detail later in this report, the review of a tender process for the external auditor appointment;
- 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 2021, the level of achievement of that plan and the scope of the annual internal audit plan for FY 2022;

- periodic internal control and assurance reports from Group Assurance;
- review of outputs from a review of the key financial controls, which evaluated the operation of key financial controls during the Covid-19 pandemic, whereby a significant increase in remote working was required;
- the Group's risk management framework for the identification and control of major 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 46 and 40 respectively);
- compliance with the Company'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 2021.

Disclosure of significant issues considered

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 98 to 167.

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

- **Job Retention Scheme** – given the material value of the Job Retention Scheme claims made during FY 2021, the business has taken a number of steps to ensure the claims made are accurate. These steps include the appointment of an external firm to perform a sample review of claims made, together with working closely with HMRC throughout the year;
- **Property, plant and equipment valuation** – the assumptions used by management to value the long leasehold and freehold estate including: estimated fair maintainable trading levels which consider a slightly reduced pre-Covid-19 performance; 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. Value-in-use calculations used in this review consider the short-term impact of Covid-19 on forecast trading levels and assumed recovery rates;
- **Pension surplus/deficit** – the actuarial pension surplus 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 have used judgement to determine the applicable rate of inflation 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;
- **Covenants** – the headroom on the covenants within the securitised estate, together with an evaluation of the mitigating options available to management (to ensure there is reasonable assurance that should a covenant be close to being breached, management have further actions that could be undertaken to prevent such a breach occurring), have been reviewed in detail by management and assessed by the Audit Committee (see page 40 Corporate Viability Disclosure which includes details of going concern scenarios, sensitivity and reverse stress testing). Refinancing activities, including the obtaining of covenant waivers, and the pension contribution deferrals, as agreed with the pension schemes' trustees, have been reviewed by the Audit Committee, in addition to the Going Concern and Corporate Viability report (which includes details of the material revenue and profitability reduction, resulting from the overall impact of Covid-19 upon business performance and future trading); and
- **Separately disclosed items** – judgement is used to determine those items which should be separately disclosed to allow a better 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 115. 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 Company'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 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 2021 internal audit plan was developed through a review of formal risk assessments (in conjunction with the Risk Committee and the Group's 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 2022 internal audit plan. The principal objectives of the internal audit plan for FY 2021 were, and remain for FY 2022:

- 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 ('core assurance'); 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 web-based 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 32 to 39 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:

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

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.

Audit Committee report continued

During FY 2021, 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 Company'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 2021 (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 Company Secretary's regular report to Board meetings.

External auditor appointment

Deloitte LLP was appointed as the auditor in 2011, following a formal tender process. 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 most recent audit partner rotation took place in 2021 when Scott Bayne became the lead Audit Partner. The Company has complied throughout the reporting year 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.

Under the terms of that Order, the Committee agreed and put plans in place, to carry out a competitive audit tender in 2020, in respect of the financial year ending in FY 2021 to ensure the continued objectivity, independence and value for money of the statutory audit. However, given Government advice related to the unprecedented implications of Covid-19, the Committee concluded that it should seek FRC approval to reappoint Deloitte for one further year, and undertake the audit tender process in 2021. This approval was received on 5 October 2020. A full audit tender process has now been completed with KPMG LLP emerging as the successful firm. Following Board approval, KPMG LLP will be appointed as the Company's external auditor and will therefore be responsible for undertaking the FY 2022 audit.

The Audit Committee considers that the relationship with the external auditor is working well and is satisfied with its effectiveness and did not consider it necessary to require Deloitte LLP not to re-tender for the external audit work.

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 2021 and a copy of it is appended to the Audit Committee's terms of reference and is available on the Company'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:

- audit services, including work related to the annual Group financial statements and statutory accounts.

Acquisition and vendor due-diligence may only be provided if it is specifically approved by the Committee on a case by case basis in advance of the engagement commencing.

Any other work for which management wishes to utilise the external auditor must be approved as follows:

- services with fees less than £50,000 may be approved by the Chief Financial Officer; and
- engagements with fees over £50,000 fall to be approved by the Audit Committee and its Chair.

During FY 2021, 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. Approval was required (and provided) by the Audit Committee, as fees were over £50,000.

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 Company 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 120.

As KPMG LLP are to be appointed as the Company's external auditor, as part of their appointment work is underway to review the non-audit services policy to ensure it is aligned to KPMG's approach to such issues.

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, Company Secretary and General Counsel, 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.

The FRC's Audit Quality Review (AQR) team monitors the quality of audit work of certain UK audit firms through annual inspections of a sample of audits of individual audit firms. During the year, the FY 2020 audit of the Group by Deloitte was reviewed by the AQR and their report was issued in November 2021. The FRC has provided a copy of their report to management for review which sets out the assessment of the quality of the audit work reviewed together with key findings. The AQR team reviewed and assessed the audit carried out by Deloitte and has not assessed the adequacy of the Group's financial controls or financial reporting. In summary, the results of the AQR found that only limited improvements were required. Therefore, there were no material findings arising from the review, and in addition, there was a finding of good practice.

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 Company'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:

- 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
24 November 2021

Report on the Directors' remuneration

Bob Ivell
Chairman

"I am pleased to present the Directors' remuneration report in respect of the financial period which ended on 25 September 2021."

Background and business context

The past year has once again been dominated by the impact of Covid-19 on the business, with the long periods of lockdown meaning that our business was closed for a large part of the year. When the business has been able to trade, performance has been robust overall, with sales in our premium and restaurant businesses well ahead of the comparable period in FY 2019. This sales growth was offset by weaker trading in our pubs and city centre based businesses, with much of the impact a result of many people continuing to work from home and the loss of tourism, especially in London. Overall in FY 2021 like for like sales fell by 9.6% against FY 2019, being the last full year pre-Covid-19. In the period from April 2021, when the business reopened, sales steadily improved through to July when most restrictions were removed, and sales strengthened further to the end of the financial period. The additional support received from the temporary reduction in VAT and business rates relief has also been an important factor in supporting the recovery of the business.

When the business has been closed almost all employees were furloughed and accessed the Coronavirus Job Retention Scheme ('CJRS'). The utilisation of this scheme was an invaluable support for employees and ensured that we were able to protect jobs. Overall in FY 2021 a total of £210m of financial support was received by employees in the UK. Where employees earned above the upper limit of the CJRS their pay was topped up by the Company and therefore no employees received less than 80% of their normal pay.

The success of the business prior to the pandemic was guided by three clear strategic priorities, to build a balanced business, instil a commercial culture and drive an innovation agenda. Progress against these priorities has been driven by the Ignite programme, and just prior to the pandemic a new wave of initiatives was planned, and then put on hold when the business closed. The Ignite programme has now recommenced and will be an important factor in the further recovery of the business with a wide range of projects now underway, not least the recommencement of our capital plan which will see the number of projects returning to pre-pandemic levels in the coming year.

It became clear early in the FY 2021 financial period that there would be a need to refinance the business to ensure that the business could survive an extended period of lockdown and emerge from the pandemic in a position of strength and able to capitalise on the economic recovery. In March, gross proceeds of £351m were raised through an Open Offer, providing the Group with sufficient liquidity to support the business through the ongoing disruption caused by the pandemic and which enabled the business to deliver on its strategy to increase market share whilst deleveraging. Just prior to the Open Offer three of the Group's largest shareholders, Piedmont, Elpida and Smoothfield, came together as a single group, and consolidated their holdings under a newly incorporated holding company, Odyzean Limited. The formation of the Odyzean Group was important in supporting the Open Offer and providing clarity as to the relationship of our largest shareholders with the Company. As a result of the establishment of Odyzean Limited, 56.8 per cent. of the Company's shares are now owned and controlled by the Odyzean Group.

Throughout the pandemic the safety and wellbeing of our teams has been a priority. During the lockdown in the early part of 2021 we once again surveyed our employees to understand their concerns and enable us to plan for reopening in the safest way possible, building on the learnings from the summer of 2020. Encouragingly almost all employees who responded were happy with the safety measures that were put in place for reopening and were looking forward to returning to work. Where employees had concerns, they were able to discuss these with their line manager and plans were put in place to address those concerns. Employees' wellbeing is supported by an employee assistance programme operated in conjunction with the Licensed Trade Charity which provides all employees with help and advice in relation to health, mental wellbeing, education and housing issues. Employees are further supported by our online wellbeing hub that provides help across our five wellbeing pillars: social, environmental, physical, mental and financial. Mental wellbeing in particular has been a concern for many people over the last 18 months, and to support this, line managers have been able to access mental health wellbeing training to help support themselves and their teams.

Remuneration in FY 2021

The current remuneration policy was approved at the 2021 AGM with 82.5% of shareholders voting in favour of the policy and 88.5% of shareholders voting in favour of the new Restricted Share Plan ('RSP'). Overall, the Committee was pleased with the level of support, recognising that some shareholders have strong views on specific matters, including the implementation of RSPs and pensions alignment, that do not fully align to those of the Committee. Leading shareholders were consulted on the RSP and their views were taken into account in the final design of the plan.

Annual Bonus

The Committee determined at the start of FY 2021 that no bonus would be payable to Executive Directors in respect of FY 2021 as it was clear the restrictions under which the business was operating and the subsequent further lockdown would extend well into the financial year.

RSP FY 2021 Award

Following the approval of the remuneration policy and the new RSP at the 2021 AGM, an award was made in May 2021 in respect of the FY 2021/23 period. The RSP is intended to support the alignment of Executive Directors and other senior management with shareholders over the long term through a material shareholding. It enables management to focus on the successful recovery of the business and to make appropriate and timely decisions to deliver long-term performance and, therefore, value. As is typically the case with RSPs, there are no performance conditions but instead a set of qualitative underpins are in place which the Committee believes will ensure that any vesting under the RSP is appropriate in the context of the wider business performance over the three-year period.

The award for the Chief Executive was set at 100% of base pay, this being a 50% reduction when compared to the previous LTIP award. The award for the CFO was also set at 100% of base pay, compared to a 140% of base pay award under the previous LTIP. The RSP award size for the CFO is intended to recognise the pivotal role that he played in delivering, with very strong shareholder support overall, the equity raise that completed in March 2021. The equity raise was particularly complex as it encompassed not only the Open Offer but also the refinancing of banking facilities and agreements for further amendments and waivers in relation to the secured debt financing.

FY 2019 PRSP vesting

During FY 2019 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 2019/21 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).

The Covid-19 pandemic has severely impacted on performance with Operating Cash Flow of £897m being below the level required for threshold vesting (£1,497m). As a result, this element of the plan lapsed. TSR performance was 19.7% and above the median of the group (-2.7%) but below the level required for maximum vesting (24.9%). On this basis 86.1% of this element vests and overall vesting of the FY 2019/21 PRSP awards is therefore 21.5%. Vested shares remain subject to the requirements of a share price underpin. This means that vested shares can only be exercised in the event that the share price equals or exceeds £2.72 on any one day in the six months ending on 25 May 2022. If the share price underpin is not met within the six-month period, then the award will lapse.

The Committee has carefully considered if it is appropriate that the award should vest in line with the formulaic outcome. Over the performance period, when trading has been possible, the business has performed well across a range of performance indicators. In particular, the online reputation score, which is a key element of our overall guest health measure, has increased to 4.3 and NPS scores prior to the pandemic remained strong.

Now more than ever the Committee recognises the importance of Environmental, Social and Governance (ESG) matters when determining remuneration outcomes, and despite the closure periods, good progress has been made. Food safety scores have been maintained at the previously high levels, with the number of businesses achieving a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS') consistently being above 98% over the period. Employee engagement scores have remained at very high levels prior to and throughout the Covid-19 pandemic and these surveys have been supplemented by additional wellbeing surveys that have helped shape our polices and processes for reopening and ensured the safety of our teams. Enhancing the sustainability of the organisation remains a key focus and despite the disruption caused by Covid-19, which temporarily paused progress in this area, work is ongoing to achieve our targets. During the performance period we became founding members of the Zero Carbon Forum, bringing the hospitality sector together to develop a roadmap to achieve net zero emissions, which signals our positive intention in this area.

The Executive Directors and senior management have led the business very effectively throughout the pandemic and demonstrated exceptional personal commitment to secure the future of the business for all stakeholders. Taking all of these factors into account the Committee concluded that the relatively modest levels of overall vesting are appropriate in the circumstances.

As a result, Phil Urban and Tim Jones will receive 89,483 and 52,382 shares respectively, subject to the conditions of the share price underpin. The value of these awards based on the average Mitchells & Butlers share price over the three months to the end of the financial year is £248,226 in respect of Phil Urban and £145,308 in respect of Tim Jones.

There is one other active PRSP, covering the FY 2020/22 performance period. As a result of the Covid-19 pandemic the Committee does not anticipate any vesting from the Operating Cash Flow element of that plan.

Remuneration for FY 2022

Base Pay and Pension contributions

With effect from 1 January 2022 Phil Urban's salary will increase to £551,500 (3%) and Tim Jones to £461,500 (3%). Their salaries were last increased in January 2020. These increases are below those seen for frontline colleagues but in line with those applied to support centre employees. In line with our established policy these 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 11% and overall fixed pay remains unchanged. The current employee average pension contribution is circa 4% and we anticipate that alignment will be achieved by FY 2024.

Annual Bonus

The Committee has determined that the annual bonus scheme for FY 2022 will revert to the structure previously in place for FY 2020, with an overall earnings opportunity of 100% of base pay for Executive Directors:

- Adjusted Operating Profit (70%).
- Half of the bonus opportunity will be payable for achieving a demanding Adjusted Operating Profit[a] (hereafter referred to as Operating Profit) target.
- Bonus will begin to accrue from a threshold level of performance, which will be set at 95% of target. This threshold level of performance is the same as that in place for the FY 2020 scheme.
- Full payment under this element would require a very strong performance with sales performance well above FY 2019 levels.

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

- 15% for Guest Health (NPS, combined social media scores and guest complaints).
- 10% for employee engagement.
- 5% for Food Safety.

The non-financial elements are only payable if a threshold level of performance is achieved. For FY 2022 this will be set at 97.5% of Operating Profit. The Committee has also agreed that consideration should be given in FY 2023 to the inclusion of an additional ESG measure or measures.

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. These factors may include the impact and implications of further restrictions and lockdowns, the extent of any Government support and the overall financial stability of the Group. The Committee will weigh these factors against the overall formulaic outcome of the scheme to ensure that any bonus outcome is appropriate in the circumstances and reflects the performance of the business overall in the period.

RSP award FY 2022/24

An RSP award is due to be made in respect of the FY 2022/24 period. The Committee has agreed that the award for Executive Directors will remain at 100% of base pay. This reflects the value and contribution provided by the Executive Directors and the Committee's desire to ensure alignment with shareholders.

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 current underpin remains appropriate and continues to require 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 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 our strategic priorities.

Non-Executive Directors' Fee Review

The Chairman and Non-Executive Director fees were last reviewed in January 2019. No changes are proposed for 2022.

As reported on page 70 of this annual report the Board is continuing to seek to appoint an appropriate Chair of the Remuneration Committee following Imelda Walsh stepping down from that role with the Company's best wishes in July 2021. As that process has not, at the date of finalisation of this report been concluded, I have signed the report on behalf of the Committee.

Bob Ivell
Chairman
24 November 2021

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').

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 168 to 170 of this report.

Report on the Directors' remuneration continued

Executive Remuneration Summary

This section briefly highlights performance and remuneration outcomes for FY 2021, and how they compare to the current remuneration policy. The Committee is satisfied that the remuneration policy has operated as intended during the financial period. More detail can be found in the Annual Report on remuneration on pages 87 to 96. Full details of the remuneration policy can be found on the mbplc.com website.

FY 2021 single figure remuneration for Executive Directors

	Basic salaries £000	Taxable benefits £000	Short-term incentives £000	Pension-related benefits £000	Long-term incentives £000	Other £000	Total remuneration £000
Phil Urban	534	14	–	76	–	3	627
Tim Jones	447	14	–	63	–	2	526
Total	**981**	**28**	**–**	**139**	**–**	**5**	**1,153**

The single figure table sets out payments made to Executive Directors in respect of FY 2021, including payments made in lieu of pension contributions and taxable benefits such as a company car, car allowance and healthcare cover.

FY 2021 annual bonus

No bonus schemes operated in FY 2021 and therefore no bonus is payable.

FY 2021 PRSP vesting

2019/21 PRSP – performance conditions	Threshold (25%) to maximum (100%) range*	Actual	% Vesting
Operating Cash Flow (75% of the award)	£1,497m to £1,527m	£897m	Nil
Total Shareholder Return relative to peer group** (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.	19.7%	86.1

* Between threshold and maximum, vesting under each measure is on a straight-line basis. Below threshold the award will lapse.
** Comprising EI Group, Greene King, Marston's, The Restaurant Group and Wetherspoon (JD) (the 'Peer Group').

Approach for FY 2022

Components of remuneration

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

Fixed: Salary + Benefits and pension = Fixed total

Variable: Annual bonus + RSP and shares = Variable total

Fixed components

Salary

On 1 January 2022 Phil Urban's salary will increase by 3% to £551,500 and Tim Jones' salary will also increase by 3% to £461,500.

Phil Urban Chief Executive	£551,500
Tim Jones Chief Financial Officer	£461,500

Benefits and pension

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 11% of base salary.

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	100% salary

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.

Share ownership guidelines

Directors are required to retain all vested shares (net of tax) until the share ownership guideline is met. This applies to vested deferred bonus shares as well as shares vesting from any long-term incentive plans. 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.

Report on the Directors' remuneration continued

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 2020 and FY 2021 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 2022. Benefits are based on actual FY 2021 figures and include company car allowance, healthcare and taxable expenses. Pension is the cash allowance and/or Company pension contribution payable from 1 January 2022.

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

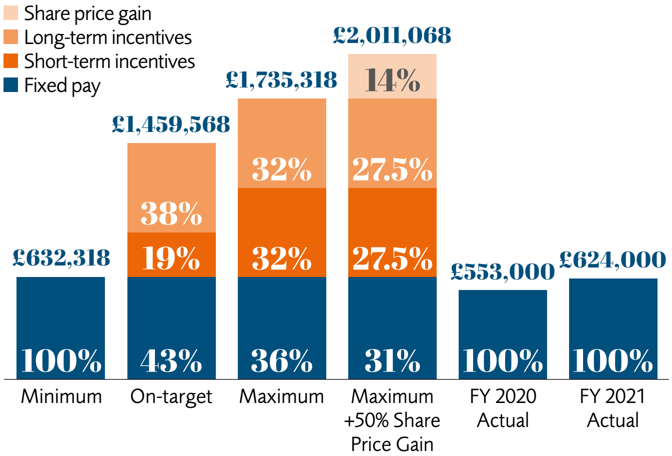
Table 1 on the right sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles.

More detail in relation to the pay ratio calculation can be found on page 94.

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

Gender Pay Gap calculations were severely distorted by the impact of the Coronavirus Job Retention Scheme. On the snapshot date on which the pay gap is calculated there were 42,373 employees. However, of these only 194 employees could be included in the calculation. This is because the regulations require only those on full pay to be included. The much bigger Gender Pay Gap in 2020 is a reflection of the composition of those working on the snapshot date, which included all of the Executive Committee and those on leave at full pay and is not representative of the actual pay gap of all workers. A similar result will be seen in the 2021 figures.

Chief Executive



Chief Financial Officer

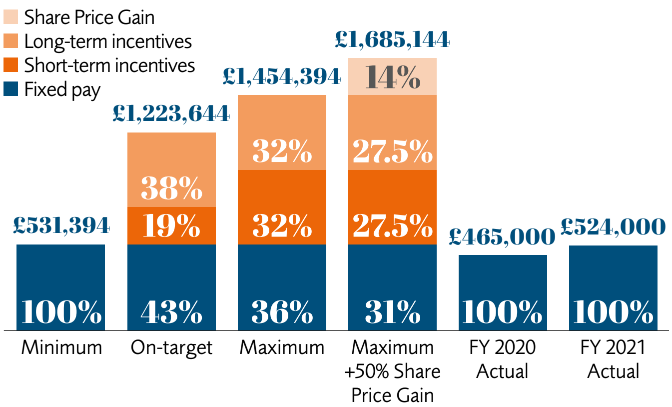


Table 1

	Chief Executive pay ratio		
Financial year	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
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	**2020 %**	2019 %	2018 %	2017 %
Mean Pay Gap	**29.3**	6.1	7.4	8.1
Median Pay Gap	**17.3**	3.2	4.7	5.2
Mean Bonus Gap	**24.6**	33.5	38.5	27.6
Median Bonus Gap	**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 Directors reward is linked to performance with a clear line of sight between business' outcomes 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. A good example of this is how these principles apply to our 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, therefore building their own stake in the business.

Equally, the above principles are applied to our hourly paid team members. 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 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. Operating Profit delivery is the main component of the annual bonus plan.
	Guests' expectations continue to increase, demanding higher standards of service and digital capability.	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.

Report on the Directors' remuneration continued

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) **Executive Committee** (8) **Senior management** (c.40)	Pay broadly around mid-market levels. Overall, increases (in percentage terms) consistent across all salaried employee groups.	Bonus schemes for all schemes align to the business scorecard. The majority of bonus opportunity is linked to financial performance.	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.
Retail Support Centre (c.950) **Retail managers** (c.4,700)				
Retail team members (c.35,600)	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 for retail team members and is in line with our 'competitive' and 'straightforward' remuneration principles.		

Workforce engagement

Whilst not specifically consulted on executive remuneration, feedback from employees is gathered in a number of ways through the year as shown in the illustration below:

Remuneration Committee

Employee survey

Outcomes reviewed by the Remuneration Committee and taken into account when setting remuneration policy.

CEO roadshows

The CEO and CFO hold regular roadshows that allow both support centre colleagues and General Managers an opportunity to discuss business issues and provide feedback.

Employee forum

Elected representatives have direct access to the Executive Committee and for Executive remuneration matters, the Remuneration Committee Chair.

Overview of pay and policy decisions

Committee members are updated on employee terms and conditions and made aware of significant changes to policies and other pay related matters.

Nominated Non-Executive Director

A Non-Executive Director (Dave Coplin) has been appointed to engage with employees and report back to the Board. Dave Coplin is a member of the Remuneration Committee.

The Committee is regularly updated throughout the year on pay and conditions applying to Group employees and particularly so in FY 2021, given Covid-19 and how the Coronavirus Job Retention Scheme has supported employees. In particular, the Committee has been interested in the way in which the Company has communicated and engaged with employees over the course of the pandemic.

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 2021, these updates have focused on the ongoing response to the pandemic and, in particular, workforce planning, employee engagement and wellbeing and the reinvigoration of our apprenticeships strategy.

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.

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 policy and its implementation.

In addition, an employee forum is normally held twice every year, which gives the opportunity for employees to ask questions of senior management via elected representatives, and from FY 2020 has been attended by Dave Coplin. The last meeting took place just prior to the closure of the business in March 2020 and this forum will recommence in early 2022.

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 25 September 2021 and how we intend to implement our remuneration policy for FY 2022. This report, along with the Chair's annual statement, will be subject to a single advisory vote at the 2022 AGM.

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 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
Bob Ivell	11 July 2013
Dave Coplin*	29 February 2016
Josh Levy	20 July 2017
Jane Moriarty*	27 February 2019
Susan Murray*	8 March 2019

* Independent Non-Executive Directors.

Committee activity during the year

The Committee met five* times during the year and key agenda items included the following:

October 2020	• FY 2020 Annual Bonus
	• Remuneration Policy
	• Long Term Incentive Plan
	• Employee Update
November 2020 (x 2 Meetings)	• FY 2020 Annual Bonus
	• Restricted Share Plan Proposal and Consultation
	• Employee Update/Covid-19 Response
	• Confirmation of Incentive Plan Outcomes
February 2021	• Shareholder Consultation Update
	• Restricted Share Plan Rules Approval
May 2021	• Confirmation of Restricted Share Plan Awards

* In addition to the above meetings, FY 2022 incentive plan structures were dealt with at the September 2021 Board meeting.

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 £11,400[1] 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 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 upon their own arrangements.

1. 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 24 March 2021), the resolutions on the Remuneration Policy and RSP were put forward for approval by shareholders and the resolution on the Annual report on remuneration was subject to an advisory vote. Set out in the table below are details of the relevant shareholder votes:

	Votes cast	Votes for[a]	%	Votes against	%	Votes withheld[b]
Approval of Remuneration Policy	516,340,056	425,892,672	82.48	90,447,384	17.52	61,932
Approval of Restricted Share Plan 2021	515,026,678	455,803,154	88.50	59,233,524	11.50	1,378,979
Approval of Annual Report on Remuneration	516,119,512	513,229,539	99.44	2,889,973	0.56	286,976

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.

Report on the Directors' remuneration *continued*

Pay outcomes

The tables and related disclosures set out on pages 88 to 91 on Directors' remuneration, deferred annual bonus share awards ('STDIP'), PRSP and RSP share options, Share Incentive Plan and pension benefits have been audited by Deloitte 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

	Basic salaries £000		Taxable benefits[a] £000		Short-term incentives £000		Pension related benefits[b] £000		Long-term incentives[c] £000		Other[d] £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2021	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020
Phil Urban	**534**	468	**14**	15	**–**	–	**76**	70	**–**	–	**3**	–	**627**	553	**627**	553	**–**	–
Tim Jones	**447**	391	**14**	15	**–**	–	**63**	59	**–**	–	**2**	–	**526**	465	**526**	465	**–**	–
Sub-total Executive Directors	**981**	859	**28**	30	**–**	–	**139**	129	**–**	–	**5**	–	**1,153**	1,018	**1,153**	1,018	**–**	–

Non-Executive Directors

	Fees £000		Taxable benefits[e] £000		Short-term incentives £000		Pension related benefits £000		Long-term incentives £000		Other £000		Total remuneration £000		Total fixed pay £000		Total variable pay £000	
	FY 2021	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020	**FY 2021**	FY 2020
Bob Ivell	**284**	249	**–**	1.5	**–**	–	**–**	–	**–**	–	**–**	–	**284**	250.5	**284**	250.5	**–**	–
Ron Robson[f]	**45**	46	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	46	**45**	46	**–**	–
Eddie Irwin	**53**	46	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**53**	46	**53**	46	**–**	–
Colin Rutherford[g]	**53**	58	**–**	0.5	**–**	–	**–**	–	**–**	–	**–**	–	**53**	58.5	**53**	58.5	**–**	–
Imelda Walsh[g]	**53**	58	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**53**	58	**53**	58	**–**	–
Josh Levy	**53**	46	**–**	0.5	**–**	–	**–**	–	**–**	–	**–**	–	**53**	46.5	**53**	46.5	**–**	–
Dave Coplin	**66**	58	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**66**	59	**66**	59	**–**	–
Keith Browne	**53**	46	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**53**	46	**53**	46	**–**	–
Susan Murray	**66**	58	**–**	0.5	**–**	–	**–**	–	**–**	–	**–**	–	**66**	58.5	**66**	58.5	**–**	–
Jane Moriarty	**56**	46	**–**	1	**–**	–	**–**	–	**–**	–	**–**	–	**56**	47	**56**	47	**–**	–
Sub-total Non-Executive Directors	**782**	711	**–**	5	**–**	–	**–**	–	**–**	–	**–**	–	**782**	716	**782**	716	**–**	–
Total Executive Directors and Non-Executive Directors	**1,763**	1,570	**28**	35	**–**	–	**139**	129	**–**	–	**5**	–	**1,935**	1,734	**1,935**	1,734	**–**	–

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. The value of the PRSP vesting is estimated as nil as the share price underpin has not been met. If the underpin is not met by 25 May 2022 the awards will lapse. If underpin is met, the value will be updated in the FY 2022 report.
d. Includes free shares awarded under the SIP.
e. 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).
f. Ron Robson stepped down from the Board on 31 July 2021.
g. Imelda Walsh and Colin Rutherford stepped down from the Board on 19 July 2021.

Annual bonus

The Committee determined at the start of FY 2021 that no bonus would be payable to Executive Directors in respect of FY 2021 as it was clear the restrictions under which the business was operating and the subsequent further lockdown would extend well into the financial year.

Long-term incentives vesting during the year

FY 2019 PRSP vesting

During FY 2019 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 2019/21 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).

The Covid-19 pandemic has severely impacted on performance with Operating Cash Flow of £897m well below the level required for threshold vesting (£1,497m). As a result, this element of the plan lapsed. TSR performance was 19.7% and above the median of the group (-2.7%) but below the level required for maximum vesting (24.9%). On this basis 86.1% of this element vests and overall vesting of the FY 2019/21 PRSP awards is therefore 21.5%. Vested shares remain subject to the requirements of a share price underpin. This means that vested shares can only be exercised in the event that the share price equals or exceeds £2.72 on any one day in the six months ending on 25 May 2022. If the share price underpin is not met within the six-month period, then the award will lapse.

The Committee has carefully considered if it is appropriate that the award should vest in line with the formulaic outcome. Over the performance period, when trading has been possible, the business has performed well across a range of performance indicators. In particular the online reputation score which is a key element of our overall guest health measure has increased to 4.3 and NPS scores prior to the pandemic remained strong.

Now more than ever the Committee recognises the importance of Environmental, Social and Governance matters when determining remuneration outcomes and despite the closure periods, good progress has been made. Food safety scores have been maintained at the previously high levels, with the number of businesses achieving a 4 or 5 rating in the independently operated National Food Hygiene Rating System ('NFHRS') consistently being above 98% over the period. Employee engagement scores have remained at very high levels prior to and throughout the Covid-19 pandemic and these surveys have been supplemented by additional wellbeing surveys that have helped shape our polices and processes for reopening and ensured the safety of our teams. Enhancing the sustainability of the organisation remains a key focus and despite the disruption caused by Covid-19, which temporarily paused progress in this area, work is ongoing to achieve our targets. During the performance period we became founding members of the Zero Carbon Forum, bringing the hospitality sector together to develop a roadmap to achieve net zero emissions, which signals our positive intention in this area.

The Executive Directors and senior management have led the business very effectively throughout the pandemic and demonstrated exceptional personal commitment to secure the future of the business for all stakeholders. Taking all of these factors into account the Committee concluded that the relatively modest levels of overall vesting are appropriate in the circumstances.

As a result, Phil Urban and Tim Jones will receive 89,483 and 52,382 shares respectively, subject to the conditions of the share price underpin. The value of these awards based on the average Mitchells & Butlers share price over the three months to the end of the financial year is £248,226 in respect of Phil Urban and £145,308 in respect of Tim Jones.

There is one other active PRSP, covering the 2020/22 performance period. As a result of the Covid-19 pandemic the Committee does not anticipate any vesting from the Operating Cash Flow element of the plan.

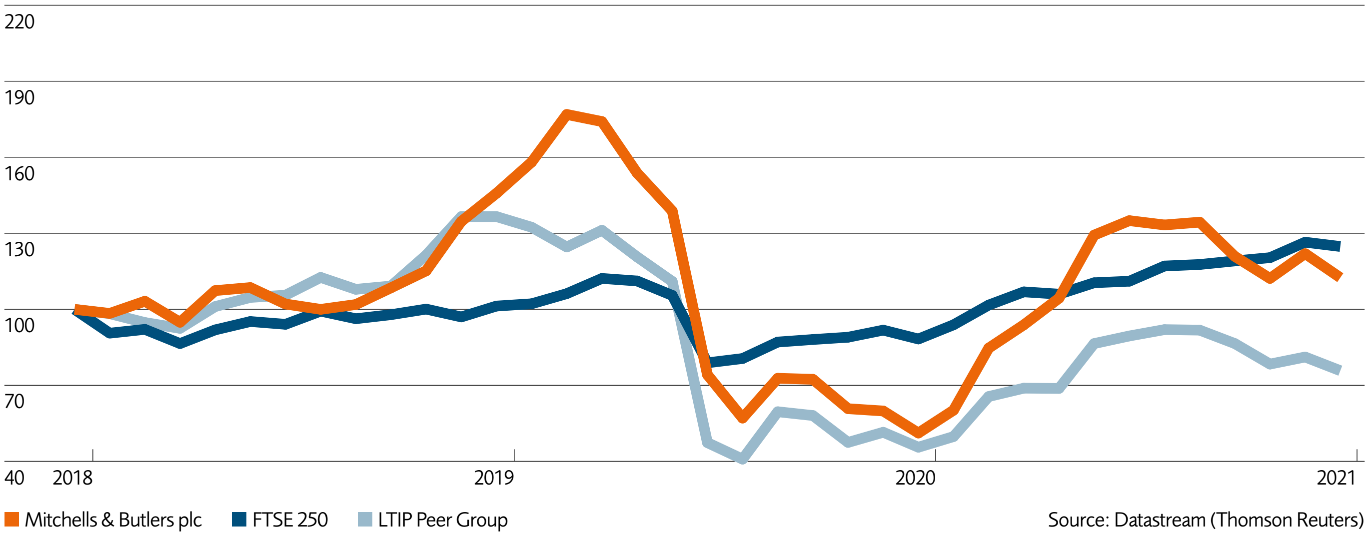
2019/21 PRSP – performance conditions	Threshold (25%) to maximum (100%) range*	Actual	% vesting
Operating Cash Flow (75% of the award)	£1,497m to £1,527m	£897m	Nil
Total Shareholder Return relative to peer group** (50% weighting)	25% would vest for matching the median of the group. 100% would vest for TSR performance that exceeds the median by 8.5% p.a. subject to a share price underpin	19.7%	86.1

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

** Comprising EI Group, Greene King, Marston's, The Restaurant Group and Wetherspoon (JD) (the 'Peer Group').

Report on the Directors' remuneration continued

The graph below shows the TSR performance over the period, against the peer group and the FTSE 250.



Long-term incentive awards made during FY 2021

An award for 2021/23 was made to the Chief Executive and the Chief Financial Officer in May 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:

Executive Directors	Nil Cost Options awarded during the year to 25/09/21	Basis of award (% of basic annual salary)	Award date	Market price per share used to determine the award (p)[1]	Actual/ planned vesting date[2]	Latest lapse date[3]	Face value[4] £
Phil Urban	173,807	100	May 2021	308.1	Nov 2023	Feb 2024	545,059
Tim Jones	145,407	100	May 2021	308.1	Nov 2023	Feb 2024	455,996
Total	**319,214**						**1,001,055**

1. Market price is the average of the middle market quotation on the three days prior to the award being made.
2. The vesting period ends on 30 September 2023.
3. The date on which vested shares will lapse if not exercised.
4. 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 (313.6p).

Sharesave and all-employee SIP

The tables opposite show the awards made to Directors under the Sharesave scheme and the free share element of the SIP during the year.

Sharesave

Director	Shares awarded during the year to 25/9/21	Award date	Option Price (p)	Earliest exercise date	Last expiry date
Phil Urban	7,031	17/06/21	256	1/10/24	31/3/25
Total	**7,031**				

SIP

Director	Shares awarded during the year to 25/9/21	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	1,001	17/06/21	293	17/06/24	n/a	n/a
Tim Jones	893	17/06/21	293	17/06/24	n/a	n/a
Total	**1,894**					

Directors' entitlements under the Partnership Share element of the SIP are set out as part of the Directors' interests table on page 88.

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).

Director	Scheme	Number of shares at 26 September 2020	Adjusted for Corporate Transaction[a]	Granted during the period	Lapsed during the period	Exercised during the period	Number of shares at 25 September 2021
Phil Urban	PRSP	996,837	65,515	–	393,517	–	668,835
	RSP	–	–	173,807	–	–	173,807
	STDIP	65,459	7,108	–	–	46,535[b]	26,032
	SAYE	7,317	794	7,031	–	–	15,142
	Total	**1,069,613**	**73,417**	**180,838**	**393,517**	**46,535**	**883,816**
Tim Jones	PRSP	583,580	38,356	–	230,361	–	391,575
	RSP	–	–	145,407	–	–	145,407
	STDIP	54,751	5,945	–	–	38,921[b]	21,775
	SAYE	7,317	794	–	–	–	8,111
	Total	**645,648**	**45,095**	**145,407**	**230,361**	**38,921**	**566,868**

a. Shares adjusted to take account of the impact of the Open Offer. The adjustment was made to ensure that the value of incentives remained consistent post the completion of the Open Offer.
b. Release of FY 2018 and FY 2019 deferred bonus shares. The market value of these shares on the date of exercise (19 March 2021) was £147,051 in respect of the shares released to Phil Urban and £122,990 in respect of the shares released to Tim Jones.

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 other Executive Directors) through the retention of shares arising from share schemes (on a net of tax basis) or through market purchases. Phil Urban's shareholding at 25 September 2021 was 188.5% of his basic annual salary (2020 73.5%) and Tim Jones' shareholding was 167.4% of his basic annual salary (2019 65.1%) and as a result the shareholding guideline is not yet met.

If deferred annual bonus shares that are due to be released in December 2021 are taken into account on a net of tax basis, the Chief Executive's shareholding would be 195.6% of base salary and the Chief Financial Officer's 174.6% of base salary.

Executive Directors' shareholdings are calculated based on the average share price over the final three months of the financial period; for FY 2021 this was 277.4p (FY 2020 163.2p). 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.

Report on the Directors' remuneration continued

The interests of the Directors in the ordinary shares of the Company as at 25 September 2021 and 26 September 2020 are as set out below:

	Wholly-owned shares without performance conditions[a]		Unvested shares with performance conditions		Unvested shares without performance conditions[b]		Unvested options without performance conditions[c]		Unvested options with performance conditions/underpins[d]		Vested but unexercised options		Total shares/options	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Executive Directors														
Phil Urban	**363,868**	241,283	**–**	–	**26,032**	65,459	**15,142**	7,317	**842,642**	996,837	**–**	–	**1,247,684**	1,310,896
Tim Jones	**270,404**	178,664	**–**	–	**21,775**	54,751	**8,111**	7,317	**536,982**	583,580	**–**	–	**837,272**	824,312
Non-Executive Directors														
Bob Ivell	**17,222**	12,006	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**17,222**	12,006
Eddie Irwin	**43,883**	31,560	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**43,883**	31,560
Dave Coplin	**2,836**	2,042	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2,836**	2,042
Josh Levy	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Keith Browne	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Susan Murray	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Jane Moriarty	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Total	**698,213**	465,555	**–**	–	**47,807**	120,210	**23,253**	14,634	**1,379,624**	1,580,417	**–**	–	**2,148,897**	2,180,816

a. Includes Free Shares and Partnership Shares granted under the SIP.
b. Deferred bonus awards granted under the STDIP.
c. Options granted under the Sharesave as detailed in the table on page 91.
d. Options granted under the PRSP or RSP as detailed in the table on pages 90 and 91.

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 114 and 115 shares respectively under the Partnership Share element of the Share Incentive Plan between the end of the financial period and 24 November 2021. 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 25 September 2021 was 267.8p and the range during the year to 25 September 2021 was 119.1p to 337.5p per share.

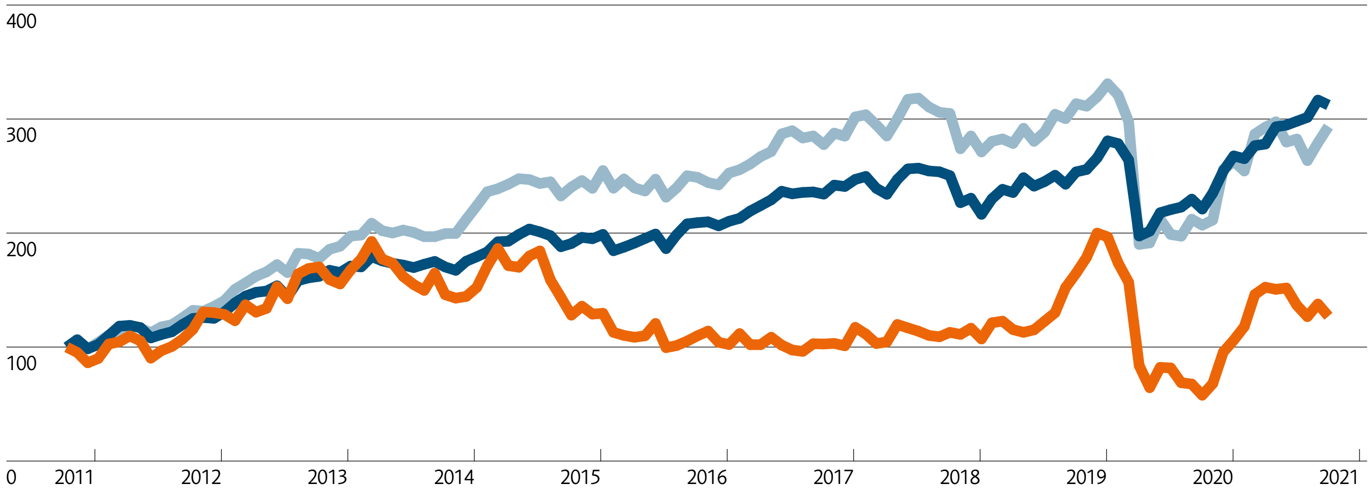
The Executive Directors as a group beneficially own 0.1% of the Company's shares.

Fees for external directorships
No external non-executive directorships were held by either Executive Director during the year to 25 September 2021.

Payment for loss of office
No payments for loss of office were made in the year ended 25 September 2021.

Payments to past Directors
No payments were made to any past Directors in the year ended 25 September 2021.

Total shareholder return from September 2011 to September 2021 (rebased to 100)
This graph shows the value, by 25 September 2021, of £100 invested in Mitchells & Butlers plc on 24 September 2011, compared with the value of £100 invested in the FTSE 250 and the FTSE All Share Travel and Leisure index.



Mitchells & Butlers plc ■ FTSE 250 ■ FTSE All Share Travel and Leisure

Source: Datastream (Thomson Reuters)

CEO earnings history

Year ended	29/09/12	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**
Phil Urban										
Single figure remuneration (£000)	–	–	–	–	613	770	819	1,684	553	**627**
Annual bonus outcome (% of max)	–	–	–	–	–	28	39	82	–	
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)	557	69[b]	–	–	–	–	–	–	–	
Annual bonus outcome (% of max)	n/a[c]	n/a[c]	–	–	–	–	–	–	–	
LTIP vesting outcome (% of max)	n/a[c]	n/a[c]	–	–	–	–	–	–	–	
Jeremy Blood										
Single figure remuneration (£000)	50	–	–	–	–	–	–	–	–	
Annual bonus outcome (% of max)	n/a[c]	–	–	–	–	–	–	–	–	
LTIP vesting outcome (% of max)	–	–	–	–	–	–	–	–	–	

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.

Report on the Directors' remuneration continued

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

	2021			2020		
	Salary/Fees	**Bonus**	**Benefits**	Salary/Fees	Bonus	Benefits
Average employee	**1.2%**	**81.6%**	**6.3%**	4.8%	76.1%	4.7%
Executive Directors						
Phil Urban	**0.0%**	**0.0%**	**-1.4%**	3%	-100%	-7.4%
Tim Jones	**0.0%**	**0.0%**	**-3.3%**	2.9%	-100%	-6.7%
Non-Executive Directors						
Bob Ivell	**0.0%**	**0.0%**	**-100.0%**	0.0%	0.0%	-25.4%
Eddie Irwin	**0.0%**	**0.0%**	**0.0%**	0.0%	0.0%	0.0%
Dave Coplin	**0.0%**	**0.0%**	**-100.0%**	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%
Susan Murray	**0.0%**	**0.0%**	**-100.0%**	0.0%	0.0%	157.6%
Jane Moriarty	**24.5%**	**0.0%**	**-100.0%**	0.0%	0.0%	443.9%

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 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 88.

Pay ratios

The table below sets out the Chief Executive pay ratio at the median, 25th and 75th percentiles for 2021. 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 three years, despite not needing to comply with this requirement until the 2020 Annual Report.

	Chief Executive pay ratio			
Financial year	Method	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
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 25 September 2021. 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 (circa 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:

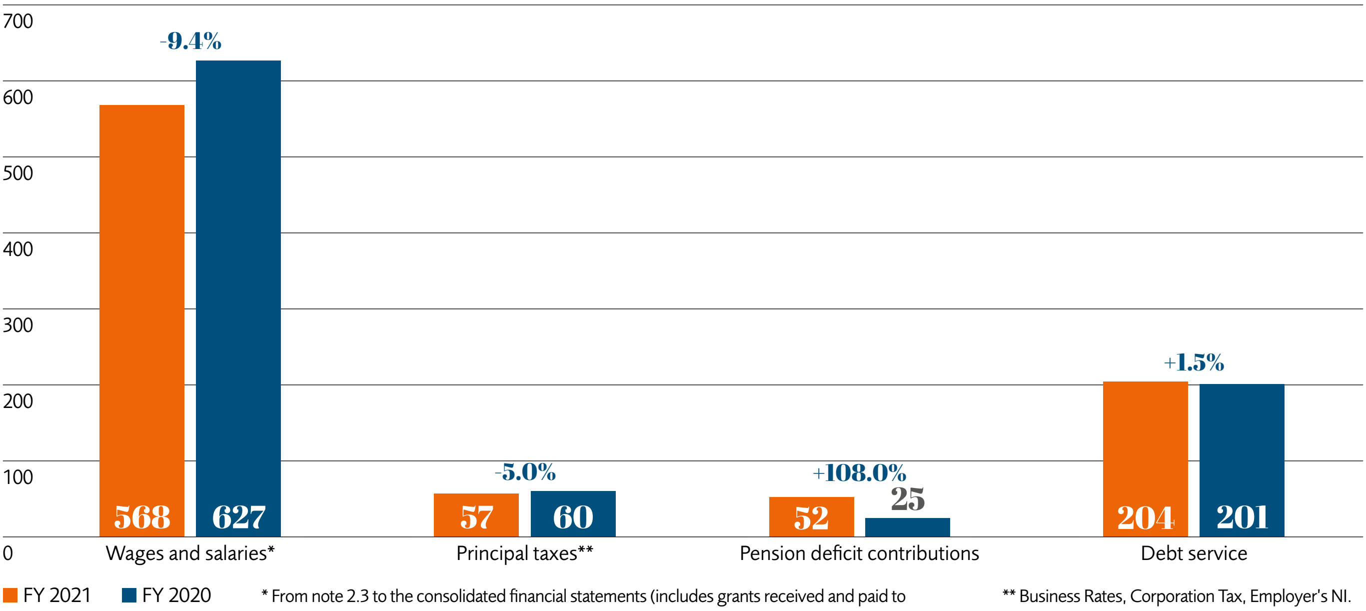
	Chief Executive (£)	P25 (lower quartile) (£)	P50 (median) (£)	P75 (upper quartile) (£)
Salary	534,034	15,215	16,216	17,126
Total pay	624,128	15,215	16,269	17,126

On a total pay basis, the ratio of workforce pay, to the Chief Executive's total pay increased slightly from FY 2020. The Chief Executive's base salary was temporarily reduced during FY 2020 in the first lockdown but reverted back to full pay from summer 2020 and through FY 2021. As a result, base pay and pension contributions increased in FY 2021 in comparison to FY 2020 although no actual increase in base pay applied. Employee pay data is based just on worked hours converted to a full time equivalent and therefore were not impacted by furlough pay.

As stated above, hourly-paid employees do not participate in the annual bonus plan, whereas salaried employees do participate in an annual bonus plan (circa 6,000 employees), although they have also seen no bonus payout in FY 2021. 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 2021, £1.9m (0.33%) was paid to Executive and Non-Executive Directors (2020 £1.7m (0.3%)).



* From note 2.3 to the consolidated financial statements (includes grants received and paid to employees under the Coronavirus Job Retention Scheme, and excludes share-based payments).

** Business Rates, Corporation Tax, Employer's NI.

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 2022 AGM. 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 2022 AGM.

Implementation of remuneration policy in FY 2022
Base Pay and Pension contributions
With effect from 1 January 2022, Phil Urban's salary will increase to £551,500 (3%) and Tim Jones to £461,500 (3%). Their salaries were last increased in January 2020. These increases are below those seen for frontline colleagues but in line with those applied to support centre employees. In line with our established policy, these 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 11% and overall fixed pay remains unchanged. The current employee average pension contribution is circa 4% and we anticipate that alignment will be achieved by FY 2024.

Annual Bonus
The Committee has determined that the annual bonus scheme for FY 2022 will revert to the structure previously in place for FY 2020, with an overall earnings opportunity of 100% of base pay for Executive Directors:

Operating Profit (70%)
- Half of the bonus opportunity will be payable for achieving a demanding Operating Profit target.
- Bonus will begin to accrue from a threshold level of performance, which will be set at 95% of target. This threshold level of performance is the same as that in place for the FY 2020 scheme.
- Full payment under this element would require a very strong performance with sales performance well above FY 2019 levels.

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

- 15% for Guest Health (NPS; combined social media scores and guest complaints).
- 10% for employee engagement.
- 5% for Food Safety.

The non-financial elements are only payable if a threshold level of performance is achieved. For FY 2022 this will be set at 97.5% of Operating Profit. The Committee has also agreed that consideration should be given in FY 2023 to the inclusion of an ESG measure or measures. Targets have not been disclosed as the Board considers these to be commercially sensitive. Targets will be disclosed in next years' 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. These factors may include the impact and implications of further restrictions and lockdowns, the extent of any additional Government support and the overall financial stability of the Group. The Committee will weigh these factors against the overall formulaic outcome of the scheme and may exercise its discretion to ensure that any bonus outcome is appropriate in the circumstances and reflects the performance of the business overall in the period.

RSP award FY 2022/24
An RSP award is due to be made in respect of the FY 2022/24 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 current underpin remains appropriate and continues to require 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 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 our strategic priorities.

Non-Executive Directors' Fee Review
The Chairman and Non-Executive Director fees were last reviewed in January 2019. No changes are proposed for 2022.

Bob Ivell
Chairman
24 November 2021

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 168 to 170 of this report.

Financial Statements

In this section

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Mitchells & Butlers plc (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 25 September 2021 and of the Group's loss for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income/(expense);
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group cash flow statement;
- the related notes 1 to 5.4 of the Group financial statements; and
- the related notes 1 to 10 of the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in note 2.3 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern.

The primary source of borrowing for the Group is secured loan notes of £1.5bn at 25 September 2021 (2020 £1.6bn), secured on the majority of the real estate properties owned by the Group. As at 25 September 2021, the Group had cash and cash equivalents of £227m, and undrawn committed unsecured facilities of £150m. The existing £150m of revolving credit facilities (RCF) was renegotiated and extended to February 2024 with associated covenants being re-negotiated to reflect new post-Covid trading.

There are covenants attached to both the secured loan notes and the unsecured revolving credit facilities. As part of the revised arrangements within the securitisation it was agreed to waive a number of covenants across the securitised borrowings till Q2 2022, including reduced testing levels till Q3 and Q4 2022. The covenants for the unsecured borrowings commence in Q4 2022. The covenants are tested annually and quarterly, based around the Group's net worth and free cash flow to debt service respectively. The covenants are most sensitive to the macroeconomic recovery and performance of the Group over the short term trading period.

Management has performed a reverse stress test on the forecast and identified that an average decline in sales of 7.4% or more, prior to any mitigating actions or consideration of future government support, would result in a breach in covenants for securitised and non-securitised borrowings in Q4 2022. As explained in note 1, management has determined that there is a high level of unpredictability and uncertainty concerning the future incidence of the pandemic. Accordingly, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. A breach of covenants would lead to the need for the Group to negotiate further waivers or renegotiate its borrowing facilities.

As such a material uncertainty exists which may cast significant doubt over the Group's and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The Audit Committee has included the adoption of the going concern basis of accounting as a key risk on page 77.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- using modelling specialists to perform testing on the mechanical accuracy of the model used to prepare the Group's cash flow forecast;
- considering the consistency of management's forecasts with other areas of the audit, including the right-of-use asset impairment review and revaluation of freehold and long leasehold properties (including consideration of management's expert's view of the likely recovery);
- challenging the key assumptions within the going concern assessment including the key assumptions in the performance over the festive period and sales recovery trajectory. We have challenged with reference to the historical trading performance, current trading uncertainty, market expectations, Government announcements and peer comparison;
- obtaining an understanding of the financing facilities available to the Group, included understanding repayment terms and covenant definitions;
- assessing the impact of reverse stress testing on the Group's funding position and covenant calculations, including the appropriateness of performance recovery assumptions;
- assessing and challenging the mitigating actions available to management, should these be required to offset the impact of the forecast performance not being achieved;
- assessing the appropriateness of risk factors disclosed in the Group's going concern statement and the financial impact of those risk factors; and
- challenging the sufficiency of the Group's disclosures over the going concern basis and material uncertainty arising.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the financial statements of the material uncertainty related to the Group's and Parent Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty related to going concern section); • Valuation of freehold and long leasehold property; • Impairment of short leasehold properties, right-of-use assets and fixtures and fittings; and • Government assistance – Coronavirus Job Retention Scheme. Within this report, key audit matters are identified as follows: N Newly identified I Increased level of risk S Similar level of risk D Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £5.8m which was determined on the basis of 0.6% of revenue. Given the volatility in performance during the year, Group revenue was considered the most appropriate performance measure on which to base materiality.
Scoping	A full scope audit has been performed in respect of the UK business, consistent with FY 2020.
Significant changes in our approach	The risk level of the FY 2020 key audit matter, presentation of separately disclosed items has decreased. This key audit matter was introduced in the prior period in light of the coronavirus pandemic and the potential for management to attribute exceptional items to the pandemic which were difficult to quantify and could be misleading. Management have not included any additional items in relation to Covid-19 in their separately disclosed items in FY 2021 and as such this is no longer a key audit matter.

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
5.1. Valuation of freehold and long leasehold property S		
This is considered to be a key audit matter due to the judgements inherent within the valuation exercise and the range of acceptable judgements. The total net book value of revalued properties as at 25 September 2021 is £4.3bn (2020 £4.1bn). The revaluation exercise performed in the year has resulted in an impairment reversal of £51m (2020 impairment charge of £43m) and an increase in revaluation reserves of £150m (2020 decrease of £148m). The Group's accounting policy sets out that the market value is determined using factors such as estimated fair maintainable trading levels, and estimated multiples which are derived for each of the Group's trading brands. When making assumptions about fair maintainable trade the Group has used trading performance for the 52 week period 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. The additional income shortfall deduction that was introduced in FY 2020 to reflect that post Covid-19 trading results may not return to historic levels in the short term has been removed for FY 2021 following the end of government issued restrictions and lockdowns. In specific circumstances where this approach does not fairly represent the underlying value of the property, for example if a site is loss making, a spot valuation is applied. Where sites have been impacted by expansionary capital investment (invested sites) in the preceding 12 months, fair maintainable trade is taken as the post investment forecast. Sites that have been open for more than three periods (2020 three periods) have been reviewed for impairment. For invested sites during FY 2021 the valuation is capped at the higher of the previous valuation or cost. Refer to note 3.1 for the Group's accounting policies and the key assumptions used, as well as the significant issues section of the Audit Committee report on page 77.	We worked with our property valuation specialists and management's external advisors to challenge the methodology and underlying assumptions used in the freehold and long leasehold property valuation. This included: • challenging management's external advisor on the appropriateness of the fair maintainable trade value used against Red Book guidance, the multiples adopted across the portfolio and the removal of the income shortfall deduction (see above); • challenging for the invested sites that the cap referred to above is appropriate by reference to likely future performance indicators; • evaluating the completeness of the allocation of central overheads to site level earnings in determining fair maintainable trade; • challenging the appropriateness of the reduction in the overall valuation relating to tenant's fixtures and fittings by reference to market value; • re-performing management's process for identifying sites requiring a spot valuation to assess the completeness of spot valuations; • using specialists to review a sample of spot valuations to assess the reasonableness of the attributed valuation; and • assessing the appropriateness of the disclosures in the financial statements. Additionally, we tested controls in relation to the valuation of the freehold and long leasehold estate. The controls tested covered management's review of: • the completeness and accuracy of the key inputs into the revaluation model; • the key judgements made in relation to fair maintainable trading levels and the multiples adopted; and • the completeness of spot valuations.	From the work performed, we are in agreement with the methodology chosen and the assumptions adopted to revalue the freehold and long leasehold properties. We concur that the valuations are suitable for inclusion in the financial statements.

<table>
<tr><th>Key audit matter description</th><th>How the scope of our audit responded to the key audit matter</th><th>Key observations</th></tr>
<tr><td colspan="3">5.2. Impairment of short leasehold properties, right-of-use assets and fixtures and fittings S</td></tr>
<tr><td>Under IFRS, the Group is required to complete an impairment review of short leasehold properties, right-of-use assets and fixtures and fittings where there are indicators of impairment. A £13m (2020 £50m) impairment has been recognised during the year.

The short leasehold properties, right-of-use assets and fixtures and fittings impairment review involves management making several estimates to determine the value in use of the cash generating units (CGUs) (being the net present value of the forecast cash flows). This is then compared to the book value of each CGU's assets (including the right-of-use asset), to identify whether any impairment is required. In making this assessment, management determines each site to be a CGU.

The key audit matter relates to the appropriateness of management's estimate of future trading performance of the sites, which is used to derive value in use. Value in use is calculated from cash flow projections and relies upon management's assumptions and estimates of future trading performance, allocation of direct costs and overheads, long-term growth rates and discount rates. This is particularly challenging in light of the significant impact of Covid-19 and uncertainty over the pace and extent of recovery of the Group and the wider economy.

The impairment model is complex and is prepared using Excel spreadsheets which increases the scope for error.

The impairment model utilises the forecasts included in the Board's three year plan, which covers the periods up to September 2024. Assumptions beyond this period assume 2% growth and that leases will not be renewed on expiry. The cash flows are discounted using a discount rate. As set out in note 3.1, the model is sensitive to changes in forecast performance, most notably sales.

The forecasts are prepared on a top down basis and not at an individual site level. For the purpose of the impairment review, an exercise has therefore been performed to allocate the forecast performance across the individual sites.

The key assumptions in forecast site performance are the discount rate, the long term growth rate, the Group gradually returning to pre-Covid level sales from the latter part of FY 2022 and returning the Group to FY 2019 profitability over the medium/longer term.

Refer to note 3.1 and 3.2 for the Group's impairment accounting policies and the key assumptions used in the impairment assessment, as well as the significant issues section of the Audit Committee report on page 77.</td><td>Our audit procedures included:

• obtaining an understanding of controls in relation to the impairment review, including controls covering management's review of the completeness and accuracy of the key inputs into the impairment model, key judgements made in relation to forecast earnings before depreciation, amortisation, interest and tax, and the site level impairments output from the model;
• assessing the methodology applied in performing the impairment review with reference to the requirements of IAS 36 Impairment of Assets;
• assessing management's process of allocating the top-down medium term plan to the individual site impairment review and challenging the judgements applied by analysing both historic site performance data and performing a search for contradictory evidence;
• challenging the key assumptions utilised in the cash flow forecasts including reference to the historical trading performance, market expectations, and peer comparison;
• challenging the allocation of direct and other costs to sites by assessing the individual costs against the criteria within IAS 36;
• assessing the long-term growth rates and discount rates applied to the site cash flows by comparing the rates used to third party evidence. In relation to the discount rate, we have compared the rates used to our independently estimated discount rates determined by our internal valuations team;
• engaging our specialist modelling team to assist in auditing the integrity of the Excel model;
• assessing management's sensitivity analysis in relation to the key assumptions used in the cash flow forecasts; and
• evaluating the adequacy of the Group's disclosures regarding impairment of short leasehold properties, right-of-use assets and fixtures and fittings in note 3.1 and note 3.2 of the financial statements.</td><td>As set out, the short leasehold properties, right-of-use assets and fixtures and fittings impairment has required significant management judgement. In particular, it requires estimation of forecast performance in the context of a challenging retail sector where the long term impact of Covid-19 on customer confidence and demand is not yet known. The impairment provision is underpinned by the assumption sales returns to pre-Covid levels sales in FY 2022, including benefits from the VAT reduction in the first half of the year.

From the work performed, we are satisfied with the integrity of management's model and have concluded that the level of impairment recognised on the short leasehold properties, right-of-use assets and fixtures and fittings is appropriate. Given the uncertainties noted, the disclosure sensitivities in note 3.1 and note 3.2 provide important information to assess the impact of a change in key assumptions.</td></tr>
</table>

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

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
5.3. Government assistance – Coronavirus Job Retention Scheme S		
During the period under audit the Group has taken advantage of a number of Government support schemes put in place during the Covid-19 pandemic. Certain restrictions on the application of this funding apply whereby HMRC has the right to audit compliance for a period of up to six years after the furlough period. There is the risk of significant reputational damage as well as financial consequences, if scheme rules are not complied with. Given the complexity of the Coronavirus Job Retention Scheme (CJRS) and the associated calculations and the amount of income received in the period, £210m (2020 £165m), we have identified a key audit matter over the recognition of CJRS income. Refer to note 2.3 for the Group's accounting policy.	We worked with our internal employee tax specialists as well as management's external advisors to challenge the appropriateness of the CJRS income. Our audit procedures included: • obtaining an understanding of controls in relation to the recognition of CJRS income, including management's review of the CJRS claims spreadsheet for accuracy of the data compared to the payroll system and for compliance against the HMRC CJRS scheme rules; • re-performing the claim value for a sample of employees including an assessment of whether the correct reference pay was used within the calculations and that the rules were applied appropriately based on information available at the time; • agreeing the total CJRS grant income of £210m to bank statements and subsequent correspondence with HMRC; and • assessing whether the disclosures within the financial statements provide sufficient detail to understand the nature of this item.	From the work performed above, we are satisfied that CJRS income has been appropriately recognised.

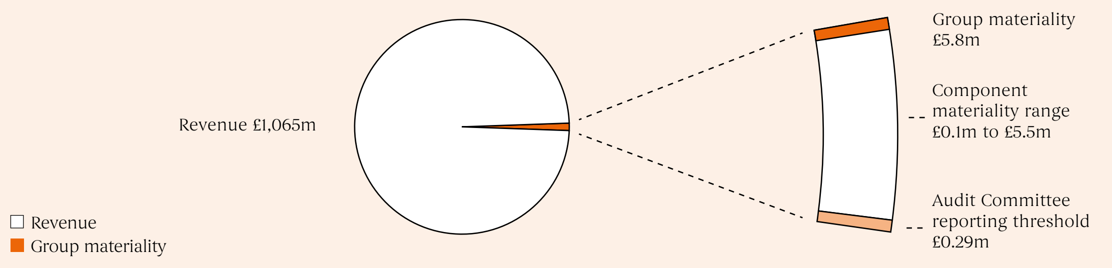
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£5.8m (2020 £5.9m)	£5.5m (2020 £5.6m)
Basis for determining materiality	0.6% of revenue (2020 0.4% of revenue).	Parent Company materiality equates to 0.3% of net assets (2020 0.3%), which is capped at 95% of Group materiality (2020 95%).
Rationale for the benchmark applied	In our professional judgement we believe that revenue is the most appropriate benchmark to determine materiality given the volatility in performance during the year. We increased the percentage of revenue so that the materiality was broadly in comparison to the prior year to reflect the overall size and scale of the business.	The Parent Company does not trade so materiality has been determined using net assets.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2020 70%) of Group materiality	70% (2020 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over key business processes (see section 7.2); and • our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £290,000 (2020 £295,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

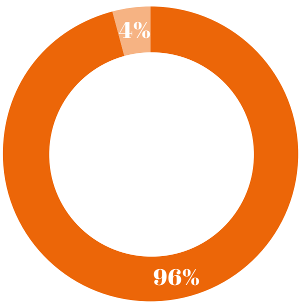
7. An overview of the scope of our audit

7.1 Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we performed a full scope audit in respect of the UK retail operating business which accounts for 96% (2020 95%) of revenue and 99% (2020 99%) of the Group's net assets. This audit work was performed directly by the Group audit engagement team, who also tested the consolidation process. Given the relative size of the German business ('ALEX') we consider the UK business provides sufficient audit assurance over the Group balances. This approach is consistent with FY 2020. At the Parent Company level we also tested the consolidation process, as well as the Company balances to Parent Company materiality.

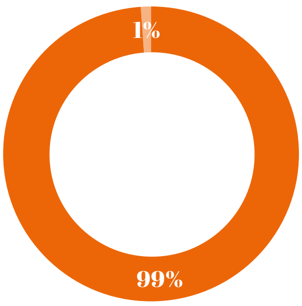
Our audit work on the UK business was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.1m to £5.5m (2020 £0.1m to £5.6m).

Revenue



Full audit scope 96%
Review at group level 4%

Net assets



Full audit scope 99%
Review at group level 1%

7.2. Our consideration of the control environment

The Group uses JDE Enterprise for financial reporting in all of its legal entities. We utilised our IT specialists to assess key controls over the JDE Enterprise system, plus other key IT systems relevant to our audit including Stock Wastage System, STEP, Aztec, Data Warehouses, Robot Scheduler, Sterling and Biztalk and the supporting infrastructure for these applications.

In responding to the assessed risks of material misstatement, the audit engagement team placed reliance on the operating effectiveness of the Group's controls in relation to revenue, food and drink expenditure and the valuation of the freehold and leasehold property.

8. Other information

The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Accounts. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, in-house legal counsel including the Company Secretary and General Counsel, and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas:

- valuation of freehold and long leasehold property;
- impairment of short leasehold properties, right-of-use assets and fixtures and fittings; and
- government assistance – Coronavirus Job Retention Scheme income.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included data protection regulations, licensing regulations, occupational health and safety regulations, responsible drinking regulations, planning and building legislation and employment legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of freehold and long leasehold property, impairment of short leasehold properties, right-of-use assets and fixtures and fittings, and government assistance – Coronavirus Job Retention Scheme income as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements
12. Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' report.

13. Corporate Governance Statement
The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 41;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 41;
- the Directors' statement on fair, balanced and understandable set out on page 61;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 32;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 76; and
- the section describing the work of the Audit Committee set out on page 76.

14. Matters on which we are required to report by exception
14.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Report on the Directors' Remuneration to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address
15.1. Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by the Board on 10 February 2011 to audit the financial statements for the 52 weeks ending 24 September 2011 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eleven years, covering the years ending 24 September 2011 to 25 September 2021. The year ended 25 September 2021 will be our final year as auditors of the Group.

15.2. Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report
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.

Scott Bayne FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
24 November 2021

Group income statement

For the 52 weeks ended 25 September 2021

		2021 52 weeks			2020 52 weeks		
	Notes	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2.1, 2.3	**1,065**	**–**	**1,065**	1,475	–	1,475
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(898)**	**13**	**(885)**	(1,221)	2	(1,219)
Share in associates results	3.6	**1**	**–**	**1**	(1)	–	(1)
Net profit arising on property disposals	2.2, 2.3	**–**	**1**	**1**	–	–	–
EBITDA[b] before movements in the valuation of the property portfolio		**168**	**14**	**182**	253	2	255
Depreciation, amortisation and movements in the valuation of the property portfolio	2.2, 2.3	**(139)**	**38**	**(101)**	(154)	(93)	(247)
Operating profit/(loss)		**29**	**52**	**81**	99	(91)	8
Finance costs	4.2	**(122)**	**–**	**(122)**	(128)	–	(128)
Finance income	4.2	**2**	**–**	**2**	1	–	1
Net pensions finance charge	4.2, 4.5	**(3)**	**–**	**(3)**	(4)	–	(4)
(Loss)/profit before tax		**(94)**	**52**	**(42)**	(32)	(91)	(123)
Tax credit/(charge)	2.2, 2.4	**17**	**(40)**	**(23)**	5	6	11
(Loss)/profit for the period		**(77)**	**12**	**(65)**	(27)	(85)	(112)
Loss per ordinary share (restated)[c]							
– Basic	2.5	**(13.6)p**		**(11.5)p**	(5.7)p		(23.6)p
– Diluted	2.5	**(13.6)p**		**(11.5)p**	(5.7)p		(23.6)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 168 to 170 of this report.
c. Loss per share for the comparative periods have been restated to reflect the bonus element of the Open Offer share issue completed on 12 March 2021. See note 2.5.

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

All results relate to continuing operations.

Group statement of comprehensive income/(expense)

For the 52 weeks ended 25 September 2021

	Notes	2021 52 weeks £m	2020 52 weeks £m
Loss for the period		**(65)**	(112)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	3.1	**150**	(148)
Remeasurement of pension liability	4.5	**9**	3
Tax relating to items not reclassified	2.4	**(97)**	1
		62	(144)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(1)**	–
Cash flow hedges:			
– Gains/(losses) arising during the period	4.3	**32**	(43)
– Reclassification adjustments for items included in profit or loss	4.3	**56**	48
Tax relating to items that may be reclassified	2.4	**(4)**	5
		83	10
Other comprehensive income/(expense) after tax		**145**	(134)
Total comprehensive income/(expense) for the period		**80**	(246)

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

Group balance sheet

25 September 2021

	Notes	2021 £m	2020 £m
Assets			
Goodwill and other intangible assets	3.5	**13**	14
Property, plant and equipment	3.1	**4,442**	4,305
Right-of-use assets	3.2	**379**	402
Interests in associates	3.6	**5**	4
Finance lease receivables	3.2	**14**	15
Deferred tax asset	2.4	**4**	85
Derivative financial instruments	4.3	**29**	45
Total non-current assets		**4,886**	4,870
Inventories	3.3	**19**	22
Trade and other receivables	3.3	**48**	41
Current tax asset		**3**	1
Finance lease receivables	3.2	**1**	2
Cash and cash equivalents	4.4	**252**	173
Total current assets		**323**	239
Total assets		**5,209**	5,109
Liabilities			
Pension liabilities	4.5	**(51)**	(51)
Trade and other payables	3.3	**(333)**	(314)
Current tax liabilities		**(2)**	–
Borrowings	4.1	**(134)**	(238)
Lease liabilities	3.2	**(50)**	(58)
Derivative financial instruments	4.3	**(37)**	(40)
Total current liabilities		**(607)**	(701)
Pension liabilities	4.5	**(92)**	(142)
Borrowings	4.1	**(1,416)**	(1,542)
Lease liabilities	3.2	**(463)**	(483)
Derivative financial instruments	4.3	**(172)**	(257)
Deferred tax liabilities	2.4	**(346)**	(302)
Provisions	3.4	**(9)**	(5)
Total non-current liabilities		**(2,498)**	(2,731)
Total liabilities		**(3,105)**	(3,432)
Net assets		**2,104**	1,677
Equity			
Called up share capital	4.7	**51**	37
Share premium account	4.7	**356**	28
Capital redemption reserve	4.7	**3**	3
Revaluation reserve	4.7	**1,150**	1,117
Own shares held	4.7	**(3)**	(3)
Hedging reserve	4.7	**(156)**	(240)
Translation reserve	4.7	**13**	14
Retained earnings		**690**	721
Total equity		**2,104**	1,677

The notes on pages 111 to 161 form an integral part of these consolidated financial statements.

The consolidated financial statements were approved by the Board and authorised for issue on 24 November 2021.
They were signed on its behalf by:

Tim Jones
Chief Financial Officer

Group statement of changes in equity

For the 52 weeks ended 25 September 2021

	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 29 September 2019	37	26	3	1,267	(4)	(250)	14	830	1,923
Loss for the period	–	–	–	–	–	–	–	(112)	(112)
Other comprehensive income/(expense)	–	–	–	(150)	–	10	–	6	(134)
Total comprehensive income/(expense)	–	–	–	(150)	–	10	–	(106)	(246)
Share capital issued	–	2	–	–	–	–	–	–	2
Purchase of own shares	–	–	–	–	(2)	–	–	–	(2)
Release of own shares	–	–	–	–	3	–	–	(3)	–
Credit in respect of share-based payments	–	–	–	–	–	–	–	2	2
Tax charge on share-based payments	–	–	–	–	–	–	–	(2)	(2)
At 26 September 2020	37	28	3	1,117	(3)	(240)	14	721	1,677
Impact of Covid-19 rent concessions[a]	–	–	–	–	–	–	–	1	1
At 26 September 2020 (revised)	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[b]	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**

a. Retained earnings at 26 September 2020 have been increased for the impact of Covid-19 related rent concessions agreed in the current period but relating to the 52 weeks ended 26 September 2020. See notes 1 and 3.2 for further details.
b. Details of the share capital and premium issued as part of the Open Offer share issue on 12 March 2021 are provided in note 4.7.

Group cash flow statement

For the 52 weeks ended 25 September 2021

	Notes	2021 52 weeks £m	2020 52 weeks £m
Cash flow from operations			
Operating profit		**81**	8
Add back/(deduct):			
Movement in the valuation of the property portfolio	2.2	**(38)**	93
Net profit arising on property disposals	2.2	**(1)**	–
Depreciation of property, plant and equipment	2.3	**98**	110
Amortisation of intangibles	2.3	**4**	3
Depreciation of right-of-use assets	2.3	**37**	41
Loss on disposal of fixtures, fittings and equipment		**2**	–
Cost charged in respect of share-based payments	4.6	**3**	2
Past service cost in relation to the defined benefit pension obligation	4.5	**3**	–
Administrative pension costs	4.5	**5**	2
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		**195**	260
Decrease in inventories		**3**	4
(Increase)/decrease in trade and other receivables		**(7)**	9
Increase in trade and other payables		**10**	6
Increase in provisions		**1**	1
Additional pension contributions	4.5	**(52)**	(25)
Cash flow from operations		**150**	255
Interest payments[a]		**(65)**	(73)
Interest payments on interest rate swaps[a]		**(40)**	(38)
Interest receipts on cross currency swap[a]		**1**	3
Interest payments on cross currency swap[a]		**(1)**	(1)
Other interest paid – lease liabilities	4.4	**(21)**	(8)
Borrowing facility fees paid		**(1)**	(1)
Interest received		**1**	1
Tax received/(paid)		**1**	(11)
Net cash from operating activities		**25**	127
Investing activities			
Purchases of property, plant and equipment		**(29)**	(104)
Purchases of intangible assets		**(4)**	(4)
Proceeds from sale of property, plant and equipment		**1**	2
Finance lease principal repayments received		**–**	2
Net cash used in investing activities		**(32)**	(104)
Financing activities			
Issue of ordinary share capital	4.7	**342**	2
Purchase of own shares	4.7	**(1)**	(3)
Repayment of principal in respect of securitised debt[b]	4.4	**(107)**	(99)
Principal receipts on currency swap[b]	4.4	**17**	18
Principal payments on currency swap[b]	4.4	**(14)**	(14)
(Repayment)/drawings under liquidity facility	4.4	**(9)**	9
(Repayment)/drawdown of term loan	4.4	**(100)**	100
(Repayment)/drawdown of unsecured revolving credit facilities	4.4	**(10)**	10
Cash payments for the principal portion of lease liabilities	4.4	**(41)**	(22)
Net cash from financing activities		**77**	1
Net increase in cash and cash equivalents		**70**	24
Cash and cash equivalents at the beginning of the period	4.4	**158**	133
Foreign exchange movements on cash		**(1)**	1
Cash and cash equivalents at the end of the period	4.4	**227**	158

a. Interest paid has been split to show gross payments on the interest rate and cross currency swaps.
b. Principal repayments on securitised debt have been split to show repayments relating to the cross currency swap.

The notes on pages 111 to 161 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 171.

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 46.

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 25 September 2021 and the comparative period ended 26 September 2020 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 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described within the Finance review on pages 43 to 46.

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.

Liquidity

As at 25 September 2021, the Group had cash and cash equivalents of over £200m, and undrawn committed unsecured facilities of £150m. We expect to retain headroom against these facilities throughout the going concern assessment period.

The Group's primary source of borrowings is through a secured financing structure made up of ten tranches of fully amortising loan notes with a gross debt value of £1.5bn. These are secured against the majority of the Group's real estate property assets and the future income streams generated from those properties. The periods for repayments of principal vary by class of note with maturity dates ranging from 2023 to 2036, but at a current aggregate annual debt service cost of c£200m. Interest rate and exchange rate fluctuations have largely been fixed with currency and interest rate swaps which qualify for hedge accounting under IFRS 9 Financial Instruments. Within the securitisation structure, the Group maintains a Liquidity Facility of £295m, which is a condition of the securitisation documents. On 15 February 2021, alongside the announcement of the equity Open Offer, the Group announced revised financing arrangements that had been agreed with its main creditors to provide additional liquidity and financial flexibility in order to meet the challenges presented by Covid-19. These are summarised below.

Unsecured borrowing facilities of £150m fall due for repayment in February 2024, outside of the term of the going concern assessment period.

Revised facilities and covenants

During the period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Group and the sector by governmental authorities, including mandated closure for significant periods. Mitigating action was swiftly taken which included agreeing revised arrangements in the secured financing structure with the consent of the controlling creditor of the securitisation and the securitisation Trustee. These can be summarised as:

- an extension of the waiver of, and amendment to, the 30 day suspension of business provision, where such provision was waived because the suspension arose due to the enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022. The covenants are then initially tested on reduced levels, before full reinstatement of both tests from January 2023;
- a waiver of the requirement to appoint a financial adviser which would otherwise have arisen for any periods where the debt service coverage ratio falls to below the required level up until January 2023;
- a reduction in the minimum amount required to be spent on maintenance during FY 2021 arising from the business having been temporarily suspended; and
- a 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 are repaid in full by 15 December 2021.

Notes to the consolidated financial statements continued
Section 1 – Basis of preparation continued

Going concern continued

Revised facilities and covenants continued

In order to secure such amendments and waivers, the Group gave certain undertakings in relation to its own financing arrangements, namely, to secure additional equity funding and an extension of £150m of the liquidity facilities referred to below, and an undertaking to provide funding into the securitisation of up to £110m in line with new drawings on the Liquidity Facility.

Furthermore, it was agreed with the Group's unsecured relationship banks that the term of existing £150m committed unsecured facilities be extended to 14 February 2024.

Full details of the Group's debt arrangements are provided in note 4.1.

Significant judgements and base case

These revised financial arrangements provide a stronger platform for the business to meet uncertainty ahead, ensuring that liquidity is not expected to be a main concern during the going concern assessment period. The level of sales drives the EBITDA of the business which is a critical measure for covenant compliance tests. Following periods of enforced closure in response to the Covid-19 pandemic, substantially all of the Group's sites have now been open for trading since May 2021. Since 'Freedom Day' in July 2021 this has been in an environment largely free of restrictions. Key judgements made by management in arriving at the level of future sales concern the depth, duration and continued recovery profile of the pandemic and therefore the level of sales that the business is able to achieve. To this end we assume that no further periods of mandated national or regional closure, or of material trading restrictions, will be enforced.

In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario. Sales are assumed to largely recover to FY 2019 levels, supported in H1 by the 12.5% VAT rates on food and non-alcoholic drink for the 6 months from 1 October 2021. Stripping out the VAT benefit, this assumes sales are 5% below pre-Covid levels through H1 before moving back in line with pre-Covid sales in H2. In future years sales through FY 2023 are assumed to be 4.5% up on pre-Covid levels, with a further 3% increase in FY 2024.

Operating margins in FY 2022 are assumed to be lower than those pre-Covid, with notable cost inflation across food and utilities, labour costs (additional pay increases for certain roles suffering from supply shortage and a 6.6% NLW increase impacting hourly pay) and increased non-pub costs. Whilst some reversion in utility costs is assumed after FY 2022, these still remain well ahead of pre pandemic levels.

Under the base case forecast, the Group continues to remain profitable with no forecast breach of covenants.

Reverse stress test

The Group has also undertaken reverse stress test modelling, being the identification of that level of downside forecast at which the business model becomes unsustainable for either solvency or liquidity reasons. Due to the complex capital structure of the Group, involving the interaction of both secured and unsecured estates, with quarterly covenant testing (on both a four quarter and two quarter look-back basis) within the securitisation and monthly and quarterly tests in the unsecured estate, there is a very wide range of scenarios on which the reverse stress test can be constructed.

In examining vulnerabilities, management have considered the performance in the forecast case above and made an adjustment to reflect sales growth rates in FY 2022 at 7.4% lower than the forecast alongside further increased levels of utilities costs, cost of goods increases and NLW wage increases. Very limited mitigation action is assumed other than labour costs flexing to reflect the lower level of sales volumes and lower bonus awards. In this scenario, solvency breach first occurs in Q4 of FY 2022 under both the securitised four quarter look-back test and the unsecured four quarter look-back test. There is no issue in respect of liquidity headroom, in that existing facilities remain sufficient.

In the absence of further lockdown or material restrictions being imposed, the Directors believe that it is unlikely that the Group would experience sales shortfalls combined with cost increases, as set out in the reverse stress test, of a scale sufficient to result in a breach to its covenants over the review period. However, given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic, the Directors are unable to conclude that the prospect of either such a further lockdown or of material restrictions being imposed is remote. As such 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. This uncertainty stems directly from the lack of forward visibility of potential restrictions that might be imposed in response to the pandemic such as enforced closure, minimum social distancing measures, limitations on party sizes, and reduced opening times, all of which have an impact on consumers' ability and willingness to visit pubs and restaurants and therefore the Group's operational performance translating to sales and EBITDA that determine the Group's continuing covenant compliance.

Any breach in covenants would result in a need for a further waiver of the banking covenants or for the Group to renegotiate its borrowing facilities, neither of which are fully within the Group's control. A breach of covenants would also result in the reclassification of £1,416m non-current borrowings to current borrowings. The Directors have, however, assessed that: given the strength of the underlying business including its property estate and brand portfolio; the Group's existing relationships with its main creditors; its historical success in obtaining covenant waivers and in raising finance; they believe that a waiver of the covenants or renegotiation of the facilities should be achievable.

Going concern statement

Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for the period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not include any adjustments that would result if the going concern basis were not appropriate. A review of longer term viability is provided on page 41 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 = €1.15 (2020 £1 = €1.09), 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 = €1.17 (2020 £1 = €1.10) and £1 = $1.37 (2020 £1 = $1.27) 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
Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards	The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current period. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The relevant Standards which are amended are IFRS 2, IFRS 3, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38.
Amendments to IFRS 3 Business Combinations – Definition of a Business	The Group has adopted the amendments to IFRS 3 for the first time in the current period. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 27 September 2020.
Amendments to IAS 1 and IAS 8 – Definition of Material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current period. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.
Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (issued on 28 May 2020) and Covid-19 Related Rent Concessions beyond 30 June 2021 (effective 1 April 2021)	In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession applying IFRS 16 as if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met. (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and (c) There is no substantive change to other terms and conditions of the lease. In March 2021, the IASB extended the application date to allow lessees to apply the practical expedient for any reduction in rent payments originally due on or before 30 June 2022. This change is effective for periods beginning on or after 1 April 2021, but can be adopted early. The Group has received £2m of Covid-19 related rent concessions. The resulting impact of this change on opening retained earnings and the current period income statement is disclosed in note 3.2.

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.

Notes to the consolidated financial statements continued

Section 1 – Basis of preparation continued

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
IFRS 17 Insurance Contracts	1 January 2023
Amendments to IAS 1 (Classification of Liabilities as Current or Non-current)	1 January 2023
Amendments to IFRS 3 (Reference to the Conceptual Framework)	1 January 2022
Amendments to IAS 16 (PPE – proceeds before intended use)	1 January 2022
Amendments to IAS 37 (Onerous Contracts – cost of fulfilling a contract)	1 January 2022
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)	1 January 2022
Interest Rate Benchmark Reform – Phase 2 (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)	1 January 2021

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. In the current and prior periods, 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 111 to 112.

The Group's other critical accounting judgements and estimates are described within the relevant accounting policy section in each of the notes to the consolidated financial statements.

Judgements and estimates for the period remain largely unchanged from the prior period.

Critical judgements are described in each section listed below:

- Note 2.2 Separately disclosed items
- Note 3.1 Property, plant and equipment
- Note 3.2 Leases
- Note 4.5 Pensions

Key sources of estimation uncertainty are described in:

- Note 3.1 Property, plant and equipment
- Note 3.2 Leases

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	
	2021 52 weeks £m	2020 52 weeks £m	**2021 52 weeks £m**	2020 52 weeks £m	**2021 52 weeks £m**	2020 52 weeks £m
Revenue – sales to third parties	**1,009**	1,401	**56**	74	**1,065**	1,475
Segment non-current assets[a]	**4,817**	4,698	**36**	38	**4,853**	4,736

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 profitability 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 and include movements in the valuation of the property portfolio as a result of the annual revaluation exercise and impairment review of tenant's fixtures and fittings, short leasehold properties, right-of-use assets and unlicensed properties; profit/(loss) on disposal of properties; past service cost in relation to the defined benefit pension obligation; VAT refund in relation to gaming duty; and costs directly associated with the government enforced closure of pubs as a result of the Covid-19 pandemic.

Critical accounting judgements

Judgement is used to determine those items which should be separately disclosed to allow a better 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.

Notes to the consolidated financial statements continued
Section 2 – Results for the period continued

2.2 Separately disclosed items continued

The items identified in the current period are as follows:

	Notes	2021 52 weeks £m	2020 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)**	(11)
Gaming machine settlement	c	**20**	13
Total separately disclosed items recognised within operating costs		**13**	2
Net profit arising on property disposals		**1**	–
Movement in the valuation of the property portfolio:			
– Impairment reversal/(impairment charge) arising from the revaluation of freehold and long leasehold properties	d	**51**	(43)
– Impairment of freehold and long leasehold tenant's fixtures and fittings	e	**(3)**	(10)
– Impairment of short leasehold and unlicensed properties	f	**(2)**	(7)
– Impairment of right-of-use assets	g	**(8)**	(33)
Net movement in the valuation of the property portfolio		**38**	(93)
Total separately disclosed items before tax		**52**	(91)
Tax credit relating to above items		**(11)**	16
Tax charge relating to change in tax rate	h	**(29)**	(10)
		(40)	6
Total separately disclosed items after tax		**12**	(85)

a. 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 follows 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 current period is an estimate of the impact to the Group's schemes as a result of this ruling. See note 4.5.

b. 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.

c. The income of £13m in the prior period relates to a long-standing claim with HMRC, relating to VAT on gaming machines income pre-2005. HMRC first paid the Group £13m in May 2010 but following an appeal by HMRC, the Group repaid this in 2014. During the 52 weeks ended 26 September 2020, HMRC agreed to settle this amount with the Group. The amount recognised is the settlement value including interest.
In the current 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 has 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 has been recognised in the current period based on the final adjusted settlement received from HMRC for the pre-2005 period.

d. 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.

e. 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.

f. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amounts. See note 3.1 for further details.

g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 3.2 for further details.

h. A deferred tax charge has been recognised in the current period following the substantive enactment of legislation on 10 June 2021, which increased the UK standard rate of corporation tax from 19% to 25% from 1 April 2023. A deferred tax charge has been recognised in the prior period following the substantive enactment of legislation on 17 March 2020, which increased the UK standard rate of corporation tax from 17% to 19% from 1 April 2020.

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. Payment of the transaction price is due immediately at the point the customer makes a purchase. 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.

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.

Coronavirus Job Retention Scheme (CJRS)

Under this scheme, HMRC reimburses up to 80% of the wages of certain employees who have been furloughed. The scheme is designed to compensate for staff costs, so amounts received are 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 has operated in Germany (Kurzarbeit).

Eat Out to Help Out

During August 2020, HMRC offered a 50% discount off food and non-alcoholic drinks, capped to £10 per person, when dining out between Monday and Wednesday. The Group participated in this scheme. In the income statement, food and drink revenue includes amounts received from HMRC in respect of the scheme.

Business rates

Businesses in the retail, hospitality and leisure sectors in England were granted 100% business rates relief for the 2020/2021 rates year, covering the period from 1 April 2020 to 31 March 2021. An additional 3 months of 100% business rates relief was granted to cover 1 April 2021 to 30 June 2021. Following this, business rates have been discounted by two-thirds from 1 July 2021 until 31 March 2022. However, this extended relief is capped at £2m for the Group.

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 current period, the Group has 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 are entitled to one-off cash grants for each business impacted. The maximum amount the Group is able to claim is £10.9m as a result of the State Aid cap.

German Government grants

During the period, the Group has been 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 has been 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 Support and December Support schemes, as well as the Fixed Cost Bridging Aid scheme. These grants all fall outside of the Temporary Framework and are therefore excluded from the State Aid maximum rules.

Notes to the consolidated financial statements continued

Section 2 – Results for the period continued

2.3 Revenue and operating costs continued

Government grants

The impact of grants received on the income statement is as follows:

Government grant scheme	Income statement line impact	2021 52 weeks £m	2020 52 weeks £m
Eat Out to Help Out	Revenue – food and drink	–	30
Local Authority Grants (UK and Germany)	Revenue – other	11	–
Grants for loss of profits in Germany	Revenue – other	14	–
Coronavirus Job Retention Scheme	Operating costs before separately disclosed items	210	165
Government assistance for wages and salaries in Germany (Kurzarbeit)	Operating costs before separately disclosed items	9	3
Total Government grants received		**244**	198

In addition to the grants received above, during the prior period, the UK Government announced 100% rate relief for all pubs and restaurants for the business rates year 2020/2021, covering the period from 1 April 2020 to 31 March 2021. During the current period, the UK Government announced an additional 3 months of 100% business rates relief to cover 1 April 2021 to 30 June 2021 for properties in England. Following this, business rates have been discounted by two-thirds from 1 July 2021 until 31 March 2022 in England. However, this extended relief is capped at £2m for the Group. There has also been an extension of 100% rates relief for hospitality businesses in Scotland and Wales until 31 March 2022. The impact in the current period, across all sites within the UK, is an estimated saving of £75m (2020 £47m).

The Group has also benefitted 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% applies for the subsequent six months until 31 March 2022. The estimated impact of this on food and drink revenue in the current period is £81m (2020 £31m).

Revenue

Revenue is analysed as follows:

	2021 52 weeks £m	2020 52 weeks £m
Food	592	782
Drink	414	645
Services	34	48
Other – Local Authority grants (UK and Germany)	11	–
Other – German government grants for loss of profits	14	–
	1,065	1,475

Included within food and drink revenue for the 52 weeks ended 26 September 2020 is an amount of £30m (£26m food and £4m drink) received from the Government in relation to the Eat Out to Help Out Scheme, which operated during August 2020. As the scheme only operated during August 2020, there is no impact in the current period.

Revenue from services includes rent receivable from unlicensed properties and leased operations of £6m (2020 £7m).

Operating costs

Operating costs are analysed as follows:

	2021 52 weeks £m	2020 52 weeks £m
Raw materials and consumables recognised as an expense[a]	**241**	370
Changes in inventory of finished goods and work in progress	**3**	4
Employee costs	**403**	519
Hire of plant and machinery	**9**	14
Property operating lease costs[b]	**7**	9
Other costs	**235**	305
Operating costs before depreciation, amortisation and separately disclosed items	**898**	1,221
Other separately disclosed items (note 2.2)	**(13)**	(2)
	885	1,219
Net profit arising on property disposals	**(1)**	–
Depreciation of property, plant and equipment (note 3.1)	**98**	110
Depreciation of right-of-use assets (note 3.2)	**37**	41
Amortisation of intangible assets (note 3.5)	**4**	3
Net movement in the valuation of the property portfolio (note 2.2)	**(38)**	93
Depreciation, amortisation and movements in the valuation of the property portfolio	**101**	247
Total operating costs	**985**	1,466

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.

Employee costs

	2021 52 weeks £m	2020 52 weeks £m
Wages and salaries	**568**	629
Share-based payments (note 4.6)	**3**	2
Social security costs	**38**	43
Pensions (note 4.5)	**13**	13
Employee costs before Government grants	**622**	687
UK Government grant[a]	**(210)**	(165)
German Government grant[b]	**(9)**	(3)
Total employee costs	**403**	519

a. 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. A grant was received in relation to employee wages and salaries from the German Government under Kurzarbeit, as described above.

The 4-weekly average number of employees including part-time employees was 38,852 retail employees (2020 43,394) and 1,001 support employees (2020 1,072).

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 79 to 96.

Notes to the consolidated financial statements continued

Section 2 – Results for the period continued

2.3 Revenue and operating costs continued

Auditor remuneration

	2021 52 weeks £m	2020 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**	0.4
Total audit fees[a]	**0.7**	0.6
Other fees to auditor:		
– audit related assurance services	**–**	–
– other non-audit services[b]	**0.6**	–
Total non-audit fees	**0.6**	–
Total fees	**1.3**	0.6

a. Auditor's remuneration of £0.6m (2020 £0.5m) was paid in the UK and £0.1m (2020 £0.1m) was paid in Germany.

b. During the 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 78 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

Current tax

The income tax (expense)/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

	2021 52 weeks £m	2020 52 weeks £m
Current tax:		
– UK corporation tax	**(2)**	–
– Amounts over provided in prior periods	**4**	2
Total current tax credit	**2**	2
Deferred tax:		
– Origination and reversal of temporary differences	**8**	21
– Effect of changes in UK tax rate	**(29)**	(10)
– Adjustments in respect of prior periods	**(4)**	(2)
Total deferred tax (charge)/credit	**(25)**	9
Total tax (charge)/credit in the Group income statement	**(23)**	11
Further analysed as tax relating to:		
Loss before separately disclosed items	**17**	5
Separately disclosed items	**(40)**	6
	(23)	11

The standard rate of corporation tax applied to the reported loss is 19.0% (2020 19.0%).

The tax charge (2020 credit) in the Group income statement for the period is lower than (2020 lower) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2021 52 weeks £m	2020 52 weeks £m
Loss before tax	**(42)**	(123)
Taxation credit at the UK standard rate of corporation tax of 19.0% (2020 19.0%)	**8**	23
Expenses not deductible	**(2)**	(3)
Income not taxable	**1**	1
Tax charge in respect of change in UK tax rate	**(29)**	(10)
Effect of different tax rates of subsidiaries in other jurisdictions	**(1)**	–
Total tax (charge)/credit in the Group income statement	**(23)**	11

Taxation for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	**(13)**	(1)
Retirement benefit obligations	**(29)**	(8)
Unrealised gains on revaluations	**–**	13
Tax losses – UK	**35**	13
Share-based payments	**1**	(1)
Rolled over and held over gains	**(19)**	(7)
Depreciated non qualifying assets	**(1)**	–
Right-of-use assets	**1**	–
Total deferred tax (charge)/credit in the Group income statement	**(25)**	9

Notes to the consolidated financial statements continued
Section 2 – Results for the period continued

2.4 Taxation continued

Taxation – other comprehensive income

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
– Unrealised losses/gains due to revaluations – revaluation reserve	**(117)**	(2)
– Unrealised losses/gains due to revaluations – retained earnings	**16**	1
– Rolled over and held over gains – retained earnings	**(20)**	(6)
– Remeasurement of pension liability and rate change of pension liability	**24**	8
	(97)	1
Items that may be reclassified subsequently to profit or loss:		
– Cash flow hedges	**(4)**	5
Total tax (charge)/credit recognised in other comprehensive income	**(101)**	6

Tax relating to items recognised directly in equity

	2021 52 weeks £m	2020 52 weeks £m
Deferred tax:		
– Tax credit/(charge) related to share-based payments	**2**	(2)

Taxation – Group balance sheet

The deferred tax assets and liabilities recognised in the Group balance sheet are shown below:

	2021 £m	2020 £m
Deferred tax assets:		
Retirement benefit obligation (note 4.5)	**31**	36
Derivative financial instruments	**53**	57
Tax losses – UK	**52**	17
Share-based payments	**3**	1
Right-of-use assets[a]	**6**	5
Total deferred tax assets	**145**	116
Deferred tax liabilities:		
Accelerated capital allowances	**(44)**	(31)
Rolled over and held over gains	**(164)**	(125)
Unrealised gains on revaluations	**(275)**	(174)
Depreciated non-qualifying assets	**(4)**	(3)
Total deferred tax liabilities	**(487)**	(333)
Total	**(342)**	(217)

a. Short-term temporary differences recognised on transition to IFRS 16.

At 25 September 2021, the Group has netted off deferred tax assets of £141m with deferred tax liabilities where there is a legally enforceable right to settle on a net basis. At 26 September 2020, only the accelerated capital allowances of £31m were offset. The revised presentation better reflects the facts and circumstances around these tax positions. It should be noted that this adjustment has had no impact on the income statement, net assets or cash flow of the Group for the period ended 25 September 2021 or 26 September 2020. Deferred tax assets and liabilities have been offset and disclosed in the Group balance sheet as follows:

	2021 £m	2020 £m
Deferred tax assets (after offsetting)	**4**	85
Deferred tax liabilities (after offsetting)	**(346)**	(302)
Net deferred tax liability	**(342)**	(217)

Unrecognised tax allowances

At the balance sheet date the Group had unused tax allowances of £97m in respect of unclaimed capital allowances (2020 £94m) available for offset against future profits.

A deferred tax asset has not been recognised on tax allowances with a value of £24m (2020 £18m) 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 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The Finance Act 2020 maintained the main rate of corporation tax rate at 19% from 1 April 2020, overriding the Finance Act 2016. The effect of this change has been reflected in the closing deferred tax balances at 26 September 2020.

The Finance Act 2021 increased the main rate of corporation tax 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.

2.5 (Loss)/earnings per share

Basic (loss)/earnings per share (EPS) has been calculated by dividing the profit or loss for the period by the weighted average number of ordinary shares in issue during the period, excluding own shares held by employee share trusts.

For diluted (loss)/earnings per share, the weighted average number of ordinary shares is adjusted to assume conversion of all dilutive potential ordinary shares.

Adjusted (loss)/earnings per ordinary share amounts are presented before separately disclosed items (see note 2.2) in order to allow a better understanding of the adjusted trading performance of the Group.

The (losses)/profits used for the (loss)/earnings per share calculations are as follows:

	2021 52 weeks £m	2020 52 weeks £m
Loss for the period	**(65)**	(112)
Separately disclosed items, net of tax	**(12)**	85
Adjusted loss for the period[a]	**(77)**	(27)

a. Adjusted 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 168 to 170 of this report.

Restatement

Basic and diluted (loss)/earnings per share figures for the comparative periods have been restated for the bonus factor of 1.109 to reflect the bonus element of the Open Offer share issue (see note 4.7), in accordance with IAS 33 Earnings per Share, as shown below.

	2020 52 weeks (as previously reported) million	Bonus factor	2020 52 weeks (restated) million
Basic weighted average number of ordinary shares	428	1.109	474
Effect of dilutive potential ordinary shares:			
– Other share options	1	1.109	1
Diluted weighted average number of shares	429	1.109	475

Notes to the consolidated financial statements continued
Section 2 – Results for the period continued

2.5 (Loss)/earnings per share continued

The impact of the restated number of shares on the loss per share calculation is as follows.

	2020 52 weeks (as previously reported) pence	2020 52 weeks (restated) pence
Basic loss per share		
Basic loss per share	(26.2)p	(23.6)p
Adjusted basic loss per share	(6.3)p	(5.7)p
Diluted loss per share		
Diluted loss per share	(26.1) p	(23.6) p
Adjusted diluted loss per share[a]	(6.3) p	(5.7) p

a. Adjusted 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 168 to 170 of this report.

The number of shares used for the (loss)/earnings per share calculations are as follows:

	2021 52 weeks million	2020 52 weeks (restated) million
Basic weighted average number of ordinary shares	**566**	474
Effect of dilutive potential ordinary shares:		
– Contingently issuable shares	**1**	–
– Other share options	**–**	1
Diluted weighted average number of shares	**567**	475

	2021 52 weeks pence	2020 52 weeks (restated) pence
Basic loss per share		
Basic loss per share	**(11.5)p**	(23.6)p
Separately disclosed items net of tax per share	**(2.1)p**	17.9p
Adjusted basic loss per share	**(13.6)p**	(5.7)p
Diluted loss per share		
Diluted loss per share	**(11.5)p**	(23.6)p
Adjusted diluted loss per share[a]	**(13.6)p**	(5.7)p

a. Adjusted 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 168 to 170 of this report.

At 25 September 2021, 800,570 (2020 1,894,111) 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.

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 (FMT); and estimated resale 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 associated resale value. Where sites have been impacted by expansionary capital investment in the preceding twelve months, FMT 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.

3.1 Property, plant and equipment continued

Critical accounting judgements

Revaluation of freehold and long leasehold properties

The revaluation methodology is determined using management judgement, with advice from third-party valuers. 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 licensed land and buildings.

Where sites have been impacted by expansionary capital investment in the preceding 12 months, management judgement is used to determine the most appropriate source of site level FMT. The FMT is taken as the post investment forecast, as the current period trading performance includes a period of closure.

At the prior period reporting date of 26 September 2020, judgement was applied to determine the most appropriate measure of site level FMT. Given numerous trading restrictions impacting all sites as well as a significant period of mandated closure, FMT 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.

At 25 September 2021, given further periods of enforced closure which have persisted throughout the majority of the first half of the financial year, the 52 week average trading performance to March 2020 is still considered to be the most appropriate measure of site level FMT.

In the prior period, CBRE reduced the property multiples for certain brands to take into account the expected market impact of Covid-19. Multiples have been reviewed at 25 September 2021 in conjunction with CBRE with increases recognised in some brands as a result of market conditions.

At the prior period reporting date of 26 September 2020, following the application of a valuation multiple to provide a site valuation, an income shortfall deduction was made to reduce the resulting property valuations by the difference between the FMT and the value of the Covid-19 impacted site annual forecast for FY 2021. This adjustment was included to reflect the short term rebuild in site FMT following the Covid-19 pandemic. This methodology is no longer considered necessary as CBRE have confirmed there is little market evidence to suggest purchasers are applying this type of discount. As such the income shortfall deduction has been removed in FY 2021.

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings

For the short leasehold properties and tenant's fixtures and fittings impairment review, judgement has been applied to determine the most appropriate forecast to use as a result of the impact of Covid-19 on site profitability and cash flows.

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. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2022 that was in place at the balance sheet date.

Key sources of estimation uncertainty

Revaluation of freehold and long leasehold properties

The application of the valuation methodology requires two key sources of estimation uncertainty; the estimation of valuation multiples, which are determined via third-party inspections including consideration of a multiple reduction for the impact of Covid-19; and an estimate of fair maintainable trade, including reference to historic and future projected income levels. The valuers also make reference to market evidence of transaction prices for similar properties. An adjustment to any of these assumptions could lead to a material change in the property valuation.

A sensitivity analysis of changes in valuation multiples and FMT, in relation to the properties to which these estimates apply, is provided on page 127. The carrying value of properties to which these estimates apply is £4,277m (2020 £4,128m).

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 128. The carrying value of assets to which these estimates apply is £146m (2020 £164m).

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 28 September 2019	4,048	1,063	5,111
Additions	24	73	97
Disposals[a]	(8)	(98)	(106)
Revaluation and impairment	(196)	(12)	(208)
At 26 September 2020	3,868	1,026	4,894
Additions	14	29	43
Disposals[a]	(5)	(106)	(111)
Revaluation and impairment	200	(4)	196
Exchange differences	(1)	(2)	(3)
At 25 September 2021	**4,076**	**943**	**5,019**
Accumulated depreciation			
At 28 September 2019	79	504	583
Provided during the period	6	104	110
Disposals[a]	(7)	(97)	(104)
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**
Net book value			
At 25 September 2021	**3,996**	**446**	**4,442**
At 26 September 2020	3,790	515	4,305
At 28 September 2019	3,969	559	4,528

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 (2020 £39m) 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 £3,806m (2020 £3,685m), which are pledged as security for the securitisation debt and over which there are certain restrictions on title.

Cost at 25 September 2021 includes £14m (2020 £8m) of assets in the course of construction.

Revaluation of freehold and long leasehold properties

The freehold and long leasehold properties have been valued at fair value, as at 25 September 2021, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2020 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 expected rebuild in trade following reopening as a result of Covid-19, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the prior period, CBRE reduced the property multiples for the expected impact of Covid-19 prevailing at the balance sheet date. In the current period CBRE have selectively increased the property multiples to reflect the rebuild in trade following reopening in May 2021. However, the average multiple across the Mitchells & Butlers estate remains below the average applied pre Covid-19, incorporating an element of risk as trade rebuilds into FY 2022.

Sensitivity analysis

Changes in the FMT or the multiple could materially impact the valuation of the freehold and long leasehold properties.

FMT

As noted in the critical accounting judgements above, FMT has been 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. The average movement in FMT of revalued properties over the three financial periods, prior to March 2020, is 2.5%, which is considered to be within the range of reasonably possible outcomes for future movements in FMT. It is estimated that, given the multiplier effect, a 2.5% change in the FMT of the freehold or long leasehold properties would generate an approximate £95m movement in their valuation.

Notes to the consolidated financial statements continued

Section 3 – Operating assets and liabilities continued

3.1 Property, plant and equipment continued

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 0.4, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.4 change in the multiple would generate an approximate £173m movement in valuation.

Impairment review

The fair value of tenant's fixtures and fittings are removed from the valuation of freehold and long leasehold properties and are subsequently reviewed for impairment by comparing their recoverable amount to carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current book value.

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 cash flows, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

Sensitivity analysis

Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for tenant's fixtures and fittings, short leasehold and unlicensed properties.

Forecast cash flows

The forecast cash flows used in the value in use calculations are site level forecasts that form the basis of the overall Group profit forecast for FY 2022, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of short-term profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA in FY 2022 of 13.7% against the FY 2022 base case forecast. This would result in no change to the impairment recognised.

Discount rate

The discount rate applied in the value in use calculations is the Group WACC. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that a 0.3% increase in this rate would generate no additional impairment charge. Similarly, it is estimated that a 0.3% decrease would reduce the impairment charge by £1m.

Long-term growth rate

The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £7m.

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:

	2021 52 weeks £m	2020 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	**(2)**	(93)
Reversal of past revaluation deficits	**53**	50
Total impairment reversal/(impairment charge) arising from the revaluation	**51**	(43)
Impairment of short leasehold and unlicensed properties	**(2)**	(7)
Impairment of freehold and long leasehold tenant's fixtures and fittings	**(3)**	(10)
Total impairment of short leaseholds, unlicensed properties and tenant's fixtures and fittings	**(5)**	(17)
Total impairment reversal/(impairment charge) recognised in the income statement	**46**	(60)
Group statement of other comprehensive income		
Unrealised revaluation surplus	**154**	77
Reversal of past revaluation surplus	**(4)**	(225)
Total movement recognised in other comprehensive income	**150**	(148)
Net increase/(decrease) in property, plant and equipment	**196**	(208)

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
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**

	Number of pubs	Land and buildings £m	Fixtures, fittings and equipment £m	Net book value[a] £m
26 September 2020				
Freehold properties	1,329	3,447	398	3,845
Long leasehold properties	94	250	33	283
Total revalued properties	1,423	3,697	431	4,128
Short leasehold properties		73	73	146
Unlicensed properties		15	3	18
Other non-pub assets		1	4	5
Assets under construction		4	4	8
Total property, plant and equipment		3,790	515	4,305

a. The carrying value of freehold and long leasehold properties based on their historical cost is £2,601m and £180m respectively (2020 £2,601m and £181m).

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					
	Over 10 times	**9 to 10 times**	**8 to 9 times**	**7 to 8 times**	**Under 7 times**	**Total**
25 September 2021						
Number of pubs in each FMT income banding:						
< £200k pa	**70**	**40**	**99**	**140**	**26**	**375**
£200k to £360k pa	**15**	**110**	**168**	**115**	**46**	**454**
> £360k pa	**54**	**145**	**280**	**79**	**36**	**594**
	139	**295**	**547**	**334**	**108**	**1,423**

	Valuation multiple applied to FMT					
	Over 10 times	9 to 10 times	8 to 9 times	7 to 8 times	Under 7 times	Total
26 September 2020[a]						
Number of pubs in each FMT income banding:						
< £200k pa	65	9	65	113	126	378
£200k to £360k pa	8	35	174	158	80	455
> £360k pa	49	66	244	185	46	590
	122	110	483	456	252	1,423

a. The multiple bandings for 26 September 2020 have been amended in the current period, to assist with understanding the movement in the average weighted multiple to 25 September 2021.

Movements in valuation multiples between financial periods are the result of changes in property market conditions. The average weighted multiple is 8.4 (2020 8.1).

Notes to the consolidated financial statements *continued*
Section 3 – Operating assets and liabilities *continued*

3.1 Property, plant and equipment continued
Capital commitments

	2021 £m	2020 £m
Contracts placed for expenditure on property, plant and equipment not provided for in the consolidated financial statements	**10**	9

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 12 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.

Critical accounting judgements
Lease liabilities

Determination of the remaining committed lease term requires judgement where tenant break options or options to extend a lease exist.

Impairment of right-of-use assets

Judgement is also 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 126.

Key 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 126. 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 132. The carrying value of assets to which these estimates apply is £379m.

Right-of-use assets

Right-of-use assets can be analysed as follows:

	Land and buildings £m	Cars £m	Total £m
Cost			
At 28 September 2019	–	–	–
Transition to IFRS 16	527	4	531
Additions[a]	9	1	10
Disposals	(2)	–	(2)
Foreign currency movements	1	–	1
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**
Accumulated depreciation and impairment			
At 28 September 2019	–	–	–
Transition to IFRS 16	65	–	65
Provided during the period	39	2	41
Disposals	(1)	–	(1)
Impairment	33	–	33
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**
Net book value			
At 25 September 2021	**377**	**2**	**379**
At 26 September 2020	399	3	402
At 28 September 2019	–	–	–

a. Additions to right-of-use assets include new leases, increases in dilapidation provisions and lease extensions or rent reviews relating to existing leases.

The Group accounts for short-term leases in accordance with the recognition exemption in IFRS 16, and hence, related payments are expensed as incurred. Expenses from short-term leases amount to £nil (2020 £1m).

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 £nil (2020 £1m).

Notes to the consolidated financial statements continued

Section 3 – Operating assets and liabilities continued

3.2 Leases continued

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.

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, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

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.

Forecast cash flows

The forecast cash flows used in the value in use calculations are site level forecasts that form the overall Group profit forecast for FY 2022, in existence at the balance sheet date. Management have determined a potential downside scenario to this forecast which assumes a longer turnaround of profit back to pre-Covid-19 levels. The use of this downside forecast results in a reduction to EBITDA of 13.7% in FY 2022 against the FY 2022 base case forecast. This would result in an approximate £1m increase in the impairment recognised.

Discount rate

The discount rate applied in the value in use calculations is the Group WACC. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.3%. It is estimated that either a 0.3% increase or decrease in this rate would generate no change to the recognised impairment charge.

Long-term growth rate

The long-term growth included in the value in use calculations is 2.0%. It is estimated that if the long term growth rate was reduced to 0.0%, the impairment charge would increase by £2m.

Lease liabilities

A maturity analysis of the undiscounted future lease payments used to calculate the lease liabilities is shown below.

	2021 £m	2020 £m
Amounts payable under lease liabilities		
Due within one year	**65**	75
Due between one and two years	**62**	54
Due between two and three years	**41**	59
Due between three and four years	**45**	38
Due between four and five years	**41**	43
Due after five years	**490**	515
Total undiscounted lease liabilities	**744**	784
Less: impact of discounting	**(231)**	(243)
Present value of lease liabilities	**513**	541
Analysed as:		
Current lease liabilities – amounts due within twelve months	**50**	58
Non-current lease liabilities – amounts due after twelve months	**463**	483
	513	541

Amendments to IFRS 16: Covid-19-Related Rent Concessions

During the period, the Group has reached an agreement with a number of landlords to defer rent payments or waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19. The agreements impact periods from March 2020 through to November 2021.

The Group has early adopted the requirements of Amendments to IFRS 16: Covid-19-Related Rent Concessions during the year.

As a result of early adopting these requirements, rent deferrals which would otherwise have been treated as lease modifications have been accounted for as if the change was not a lease modification.

In addition, rent waivers have been accounted for as if the change was not a lease modification. This has resulted in a total of £2m reduction to the lease liability. The reduction to lease liability has resulted in an increase of £1m to opening retained earnings, where the waiver relates to the previous financial period and £1m credit in the current period income statement, where the waiver relates to the current financial period.

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.

	2021 £m	2020 £m
Amounts receivable under finance leases		
Due within one year	**2**	2
Due between one and two years	**2**	2
Due between two and three years	**1**	2
Due between three and four years	**1**	2
Due between four and five years	**1**	1
Due after five years	**21**	23
Total undiscounted lease payments receivable	**28**	32
Less: unearned finance income	**(13)**	(15)
Present value of lease payments receivable	**15**	17
Net investment in the leases is analysed as:		
Current finance lease receivables – amounts due within twelve months	**1**	2
Non-current finance lease receivables – amounts due after twelve months	**14**	15
	15	17

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, however, taking into account the historical default experience and the future prospects of the tenants, the Directors of the Group have recognised a finance lease receivable impairment of £2m in the current period (2020 £nil).

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:

	2021 £m	2020 £m
Due within one year	**8**	8
Due between one and two years	**7**	7
Due between two and three years	**7**	6
Due between three and four years	**6**	5
Due between four and five years	**5**	4
Due after five years	**30**	30
	63	60

The total value of future minimum sub-lease rental receipts included above is £3m (2020 £3m).

Notes to the consolidated financial statements continued
Section 3 – Operating assets and liabilities continued

3.3 Working capital
Inventories

Accounting policy
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:

	2021 £m	2020 £m
Goods held for resale	**19**	22

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 12-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:

	2021 £m	2020 £m
Trade receivables	**9**	5
Other receivables	**12**	15
Coronavirus Job Retention Scheme receivable[a]	**–**	13
Gaming machine settlement receivable[b]	**20**	–
Prepayments	**7**	8
Total trade and other receivables	**48**	41

a. Amount due from HMRC in relation to the Coronavirus Job Retention Scheme, as described in note 2.3.
b. Expected claim amount due from HMRC in relation to a claim for VAT on gaming machines. See note 2.2.

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 £6m (2020 £6m) has been recognised against trade and other receivables. Of this provision, £4m (2020 £4m) relates to a gross balance of £13m (2020 £9m) for trade receivables and £2m (2020 £2m) relates to a gross balance of £5m (2020 £5m) within 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:

	2021 £m	2020 £m
Trade payables	**80**	69
Other taxation and social security	**61**	81
Accrued charges	**149**	133
Deferred income	**22**	16
Other payables	**21**	15
Total trade and other payables	**333**	314

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.

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 lower of the net lease commitment (fixed service charges) or the operating loss after service charge 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 28 September 2019	35	1	36
Transferred to retained earnings on adoption of IFRS 16	(33)	–	(33)
Provided in the period	2	1	3
Utilised in the period	(1)	–	(1)
At 26 September 2020	3	2	5
Provided in the period	–	4	4
Utilised in the period	–	–	–
At 25 September 2021	**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 remeasured 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 remeasured 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 remeasured 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.

Notes to the consolidated financial statements continued
Section 3 – Operating assets and liabilities continued

3.5 Goodwill and other intangible assets continued

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.

Intangible assets

Intangible assets can be analysed as follows:

	Goodwill £m	Computer software £m	Total £m
Cost			
At 28 September 2019	7	16	23
Additions	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	7	18	25
Additions	–	4	4
Disposals	–	(4)	(4)
At 25 September 2021	**7**	**18**	**25**
Accumulated amortisation and impairment			
At 28 September 2019	5	4	9
Provided during the period	–	3	3
Disposals	–	(1)	(1)
At 26 September 2020	5	6	11
Provided during the period	–	4	4
Disposals	–	(3)	(3)
At 25 September 2021	**5**	**7**	**12**
Net book value			
At 25 September 2021	**2**	**11**	**13**
At 26 September 2020	2	12	14
At 28 September 2019	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 9.6% (2020 9.9%). For the purposes of the calculation of the recoverable amount, the cash flow projections beyond the two-year period include 2.0% (2020 0.0%) growth per annum.

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 28 September 2019	5
Share in associates results	(1)
At 26 September 2020	4
Share in associates results	1
At 25 September 2021	**5**

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 £5m (2020 £4m) for 3Sixty Restaurants Limited and £nil (2020 £nil) for Fatboy Pub Company Limited.

Forecast performance for 3Sixty Restaurants Limited has been reviewed in the light of Covid-19 as it trades in the hospitality sector and 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 post reopening in April 2021, 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 current period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option has been extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 25 September 2021 is £1m (2020 £1m). This has been recognised as a financial asset at FVTPL (see note 4.3) and the gain deferred and recognised over the option life.

Notes to the consolidated financial statements continued

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:

	2021 £m	2020 £m
Current		
Securitised debt[a,b]	**110**	104
Term loan[c]	**–**	100
Liquidity facility	**–**	9
Unsecured revolving credit facilities[d]	**(1)**	10
Overdraft[e]	**25**	15
Total current	**134**	238
Non-current		
Securitised debt[a,b]	**1,416**	1,542
Total borrowings	**1,550**	1,780

a. Further details of the assets pledged as security against the securitised debt are given on page 127.
b. Stated net of deferred issue costs.
c. The term loan held in the prior period was a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. Further details are provided on page 139.
d. As at 25 September 2021 the amount of £(1)m represents unamortised issue costs.
e. 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).

	2021 £m	2020 £m
Analysis by year of repayment		
Due within one year or on demand	**134**	238
Due between one and two years	**142**	152
Due between two and five years	**390**	369
Due after five years	**884**	1,021
Total borrowings	**1,550**	1,780

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:

					Principal outstanding		
Tranche	Initial principal borrowed £m	Interest	Principal repayment period (all by instalments)	Effective interest rate %	**26 September 2021 £m**	28 September 2020 £m	Expected WAL[a]
A1N	200	Floating	2011 to 2028	6.61[b]	**99**	110	4 years
A2	550	Fixed – 5.57%	2003 to 2028	5.72	**180**	201	4 years
A3N	250	Floating	2011 to 2028	6.69[b]	**123**[c]	138[c]	4 years
A4	170	Floating	2016 to 2028	6.37[b]	**116**	128	4 years
AB	325	Floating	2020 to 2032	6.28[b]	**305**	318	7 years
B1	350	Fixed – 5.97%	2003 to 2023	6.12	**46**	66	1 year
B2	350	Fixed – 6.01%	2015 to 2028	6.12	**270**	282	5 years
C1	200	Fixed – 6.47%	2029 to 2030	6.56	**200**	200	8 years
C2	50	Floating	2033 to 2034	6.47[b]	**50**	50	12 years
D1	110	Floating	2034 to 2036	6.68[b]	**110**	110	14 years
	2,555				**1,499**	1,603	

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 £151m (2020 £182m). Therefore the exchange difference on the A3N notes is £28m (2020 £44m).

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 LIBOR	0.45%
A3N	3 month US$ LIBOR	0.45%
A4	3 month LIBOR	0.58%
AB	3 month LIBOR	0.60%
C2	3 month LIBOR	1.88%
D1	3 month LIBOR	2.13%

The overall cash interest rate payable on the loan notes is 6.3% (2020 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. These include 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.

During the prior period, and as a result of the Covid-19 pandemic, material trading restrictions were imposed on the Group and the sector, including mandated closure for over three months. Mitigating action was swiftly taken and this included agreeing revised arrangements in the secured financing structure with the consent of 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 2020. During the current period a series of further amendments and waivers to the securitisation covenants were obtained as follows:

- a further waiver of, and amendment to, the 30 day suspension of business provision, where the suspension has arisen because of the ongoing enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022, with both tests then performed at revised lower levels until full reinstatement in January 2023;
- a 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 are repaid in full at the end of December 2021.

At 25 September 2021, Mitchells & Butlers Retail Limited had cash and cash equivalents of £66m (2020 £63m). Of this amount £1m (2020 £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:

	2021 £m	2020 £m
Principal outstanding at beginning of period	**1,647**	1,753
Principal repaid during the period	**(107)**	(99)
Net principal receipts on cross currency swap	**3**	4
Exchange on translation of dollar loan notes	**(16)**	(11)
Principal outstanding at end of period	**1,527**	1,647
Deferred issue costs	**(3)**	(4)
Accrued interest	**2**	3
Carrying value at end of period	**1,526**	1,646

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 a waiver to facilitate drawings of up to £100m 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 March 2021. This waiver has been extended during the current period, such that full repayment was not required by 15 March 2021, with all drawings now required to be repaid in full by 15 December 2021. The amount drawn at 25 September 2021 is £nil (2020 £9m). Further details of the covenant waivers and amendments obtained are provided within the going concern review on pages 111 to 112.

Unsecured revolving credit facilities

At the start of the 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 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 25 September 2021 is £nil (2020 £10m).

Term loan backed by the Coronavirus Large Business Interruption Loan Scheme

In June 2020, the Group entered into two new facilities of £50m each backed by the UK Government Coronavirus Large Business Interruption Loan Scheme. During the period these facilities were repaid and cancelled. The amount drawn at 25 September 2021 is £nil (2020 £100m).

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.2 Finance costs and income

	2021 52 weeks £m	2020 52 weeks £m
Finance costs		
Interest on securitised debt	**(98)**	(105)
Interest on other borrowings	**(7)**	(6)
Interest on lease liabilities	**(17)**	(17)
Total finance costs	**(122)**	(128)
Finance income		
Interest receivable – cash	**2**	1
Net pensions finance charge (note 4.5)	**(3)**	(4)

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.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; 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 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 twelve-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, twelve-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within twelve months after the reporting date.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable when information developed internally or obtained from external sources indicates that the 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

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

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 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.

Notes to the consolidated financial statements continued

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 111 to 112. 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.

	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
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)**
26 September 2020							
Securitised debt – loan notes	(166)	(168)	(171)	(173)	(175)	(1,172)	(2,025)
Derivative financial liabilities (settled net)	(40)	(37)	(35)	(32)	(29)	(135)	(308)
Derivative financial asset receipts	19	20	21	21	22	79	182
Derivative financial asset payments	(15)	(15)	(16)	(17)	(17)	(60)	(140)
Fixed rate: Securitised debt	(202)	(200)	(201)	(201)	(199)	(1,288)	(2,291)
Floating rate: Liquidity facility	(9)	–	–	–	–	–	(9)
Floating rate: Revolving credit facilities	(10)	–	–	–	–	–	(10)
Term loan	(100)	–	–	–	–	–	(100)
Lease liabilities	(75)	(54)	(59)	(38)	(43)	(515)	(784)
Trade payables	(69)	–	–	–	–	–	(69)
Other payables	(15)	–	–	–	–	–	(15)
Accrued charges	(133)	–	–	–	–	–	(133)

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). An exception to this policy has been agreed for one counterparty to the Group's swaps whose short term rating is 'A2'/'P2'/'F1'. The minimum long term rating of any Group counterparty during the year was 'A'. Counterparties to derivative financial instruments may also be required to post collateral with the Group where their credit rating falls below a predetermined level. The amount that can be invested or transacted at various ratings levels is restricted under the policy. 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 (2020 £50m). The Group held investments with 11 counterparties during the year (2020 10). 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, there has been no further increase in risk and as a result the expected credit loss allowance has not been increased in the current period.

Notes to the consolidated financial statements continued

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
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**
26 September 2020:				
Cash and cash equivalents[a]	–	158	–	158
Trade receivables[b]	–	–	5	5
Other receivables[b]	–	15	–	15
Finance lease receivables[c]	–	–	17	17
Derivatives	45	–	–	45

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 111 to 112.

Total capital at the balance sheet date is as follows:

	2021 £m	2020 £m
Net debt excluding leases (note 4.4)	**1,270**	1,563
Total equity	**2,104**	1,677
Total capital	**3,374**	3,240

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 £151m (2020 £182m) 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 (2020 £nil) impact on the reported Group profit and £15m (2020 £18m) 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 £1.5bn 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 have LIBOR as their reference rate. The Group has now 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 and liquidity facility providers (using amended reference rates consistent with those agreed under the bonds). The liquidity facility transitioned during the year to reference SONIA. All other relevant facilities and agreements referencing Sterling LIBOR will transition to reference SONIA for periods commencing on or after 1st January 2022 and those currently referencing US Dollar LIBOR will transition to SOFR for periods commencing on or after 1st July 2023. The unsecured committed facility was arranged on a SONIA basis in February 2021, so did not require any further amendment.

In the current period, the interest rate exposure has decreased as a result of the repayment of the floating rate term loan (see note 4.1). 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:

	2021 £m	2020 £m
Interest income[a]	**1**	1
Interest expense[b]	**–**	(2)
Profit impact	**1**	(1)
Derivative financial instruments (fair values)[c]	**54**	64
Total equity	**55**	63

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:

	2021 52 weeks £m	2020 52 weeks £m
Gains/(losses) arising during the period	**32**	(43)
Reclassification adjustments for losses included in profit or loss within finance costs	**56**	48
	88	5

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	
2021				
Interest rate risk				
– 10 interest rate swaps	**803**		**(209)**	**88**
Foreign exchange risk				
– Cross currency swap	**124**	**28**		**(16)**
2020				
Interest rate risk				
– 10 interest rate swaps	855		(297)	5
Foreign exchange risk				
– Cross currency swap	138	44		(11)

4.3 Financial instruments continued

The cash flows on the interest rate swaps occur quarterly, receiving a floating rate of interest based on LIBOR and paying a fixed rate of 4.8229% (2020 4.8316%). 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 occurred quarterly, receiving a floating rate of interest based on US$ LIBOR and paying a floating rate of interest at LIBOR 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 may be settled net, giving a net liability of £181m (2020 £253m).

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)**

The position at 26 September 2020 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	(120)	–	(120)	–	(120)
Counterparty B – interest rate swaps	(177)	–	(177)	44	(133)
Net interest rate swaps	(297)	–	(297)	44	(253)
Counterparty B – cross currency swap liability	(140)	(140)	–	–	–
Counterparty B – cross currency swap asset	184	140	44	(44)	–
Net cross currency swap	44	–	44	(44)	–
Total	(253)	–	(253)	–	(253)

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 current period, and as a result of the Covid-19 pandemic impact on the hospitality sector, the life of the option has been extended such that the earliest date of exercise is 1 April 2023. The fair value of this option at 25 September 2021 is £1m (2020 £1m). This is recognised as a financial asset and the gain deferred and recognised over the option life.

Fair values of derivative financial instruments

The fair values of the derivative financial instruments were measured at 25 September 2021 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				
	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Derivatives at FV designated in cash flow hedges:					
– Interest rate swaps	**–**	**–**	**(37)**	**(172)**	**(209)**
– Cross currency swap	**28**	**–**	**–**	**–**	**28**
Share options at FVTPL	**1**	**–**	**–**	**–**	**1**
25 September 2021	**29**	**–**	**(37)**	**(172)**	**(180)**
26 September 2020	45	–	(40)	(257)	(252)

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 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)**

Movements in derivative values for the 52 weeks ended 26 September 2020 are represented by:

	At 28 September 2019 £m	Cash movements £m	Fair value movements £m	At 26 September 2020 £m
Cash flow hedges	(247)	32	(38)	(253)
Share options	1	–	–	1
Total derivatives	(246)	32	(38)	(252)

Fair value of financial assets and liabilities

The fair value and carrying value of financial assets and liabilities by category is as follows:

	2021		2020	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets at amortised cost:				
– Cash and cash equivalents	**252**	**252**	173	173
– Trade receivables	**9**	**9**	5	5
– Other receivables	**12**	**12**	15	15
– Gaming machine settlement receivable	**20**	**20**	–	–
– Coronavirus Job Retention Scheme receivable	**–**	**–**	13	13
– Finance lease receivables	**15**	**15**	17	17
	308	**308**	223	223
Financial assets – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**28**	**28**	44	44
– Share options	**1**	**1**	1	1
	29	**29**	45	45
Financial liabilities at amortised cost:				
– Borrowings (note 4.1)	**(1,550)**	**(1,516)**	(1,780)	(1,584)
– Lease liabilities	**(513)**	**(513)**	(541)	(541)
– Trade payables	**(80)**	**(80)**	(69)	(69)
– Accrued charges	**(149)**	**(149)**	(133)	(133)
– Other payables	**(21)**	**(21)**	(15)	(15)
	(2,313)	**(2,279)**	(2,538)	(2,342)
Financial liabilities – derivatives at FVTPL:				
– Derivative instruments in designated hedge accounting relationships	**(209)**	**(209)**	(297)	(297)

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.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.3 Financial instruments continued

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:

Fair value at 25 September 2021	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets:				
Currency swaps	**–**	**28**	**–**	**28**
Share options (see note 3.6)	**–**	**–**	**1**	**1**
Financial liabilities:				
Interest rate swaps	**–**	**(209)**	**–**	**(209)**
	–	**(181)**	**1**	**(180)**

Fair value at 26 September 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets:				
Currency swaps	–	44	–	44
Share options (see note 3.6)	–	–	1	1
Financial liabilities:				
Interest rate swaps	–	(297)	–	(297)
	–	(253)	1	(252)

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	2021 £m	2020 £m
Cash and cash equivalents		**252**	173
Overdraft	4.1	**(25)**	(15)
Cash and cash equivalents as presented in the cash flow statement[a]		**227**	158
Securitised debt	4.1	**(1,526)**	(1,646)
Term loan[b]	4.1	**–**	(100)
Unsecured revolving credit facility	4.1	**1**	(10)
Liquidity facility	4.1	**–**	(9)
Derivatives hedging securitised debt[c]	4.1	**28**	44
Net debt excluding leases		**(1,270)**	(1,563)
Lease liabilities		**(513)**	(541)
Net debt including leases		**(1,783)**	(2,104)

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. The term loan drawing in the prior period is a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. This drawing has been fully repaid in the current period. Further details provided in note 4.1.
c. 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

	2021 52 weeks £m	2020 52 weeks £m
Net increase in cash and cash equivalents	**70**	24
Add back cash flows in respect of other components of net debt:		
Principal repayments on securitised debt	**107**	99
Principal receipts on cross currency swap	**(17)**	(18)
Principal payments on cross currency swap	**14**	14
Repayment/(drawdown) of term loan (note 4.1)	**100**	(100)
Repayment/(drawdown) of unsecured revolving credit facilities	**10**	(10)
Repayment/(drawdown) of liquidity facility	**9**	(9)
Decrease in net debt arising from cash flows	**293**	–
Movement in capitalised debt issue costs net of accrued interest	**1**	–
Decrease in net debt excluding leases	**294**	–
Opening net debt excluding leases	**(1,563)**	(1,564)
Foreign exchange movements on cash	**(1)**	1
Closing net debt excluding leases	**(1,270)**	(1,563)

Movement in lease liabilities:

	2021 52 weeks £m	2020 52 weeks £m
Opening lease liabilities	**(541)**	–
Transition to IFRS 16	**–**	(545)
Additions[a]	**(22)**	(10)
Covid-19 rent concessions[b]	**2**	–
Interest charged during the period	**(17)**	(17)
Repayment of principal	**41**	22
Payment of interest	**21**	8
Disposals	**1**	2
Foreign currency movements	**2**	(1)
Closing lease liabilities	**(513)**	(541)

a. Additions to lease liabilities include new leases and lease extensions or rent reviews relating to existing leases.
b. During the 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. See note 3.2.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.4 Net debt continued

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.

The movement in net debt including leases for the 52 weeks ended 26 September 2020 is represented by:

	At 28 September 2019 £m	IFRS 16 transition £m	Cash flow movements in the period £m	Non-cash movements in the period £m	Foreign currency movements £m	At 26 September 2020 £m
Securitised debt	(1,752)	–	99	–	7	(1,646)
Derivatives hedging securitised debt	55	–	(4)	–	(7)	44
	(1,697)		95	–	–	(1,602)
Liquidity facility	–	–	(9)	–	–	(9)
Term loan	–	–	(100)	–	–	(100)
Revolving credit facilities	–	–	(10)	–	–	(10)
Lease liabilities[a]	–	(545)	30	(25)	(1)	(541)
Total liabilities arising from financing activities	(1,697)	(545)	6	(25)	(1)	(2,262)
Cash and cash equivalents	133	–	24	–	1	158
Net debt including leases	(1,564)	(545)	30	(25)	–	(2,104)

a. Cash movements of £30m relate to £22m repayment of principal on lease liabilities and £8m of interest paid on lease liabilities.

4.5 Pensions

Accounting policies

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.

In addition, Mitchells & Butlers plc also provides a workplace pension plan in line with the Workplace Pensions Reform Regulations. This automatically enrols 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.

Critical 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 have 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.

Measurement of scheme assets and liabilities

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.

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI. As a result the additional liability resulting from any backdated pension increases at RPI (capped at 5%) and the subsequent increase in future liability that arises from this higher base position has been included in the actuarial liability at 25 September 2021. There is no impact on the total pension liability as, under IFRIC 14, additional liabilities are recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.5 Pensions continued

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	2021		2020	
	Main plan	**Executive plan**	Main plan	Executive plan
Discount rate[a]	**1.9%**	**1.9%**	1.6%	1.6%
Pensions increases – RPI max 5%	**3.3%**	**3.3%**	2.8%	2.8%
Inflation rate – RPI	**3.5%**	**3.5%**	2.9%	2.9%

a. 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.

The mortality assumptions were reviewed following the 2019 actuarial valuation. A summary of the average life expectancies assumed is as follows:

	2021		2020	
	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. Subsequent to the national lockdown which commenced on 5 January 2021, the Company agreed a further deferral of contributions covering January to March 2021 with these contributions subsequently being settled in full on 22 April 2021.

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.

The employer contributions expected to be paid during the financial period ending 24 September 2022 amount to £51m.

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.

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**

2020	Increase/ (decrease) in actuarial surplus 2020 £m	Decrease/ (increase) in total pension liabilities 2020 £m
0.5% increase in discount rate	209	5
0.1% increase in inflation rate	(40)	–
Additional one-year decrease to life expectancy	91	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.

Group income statement	**2021 52 weeks £m**	2020 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans) (note 2.3)	**(13)**	(13)
Administrative costs (defined benefit plans)	**(5)**	(2)
Charge to operating profit before separately disclosed items	**(18)**	(15)
Past service cost (note 2.2)	**(3)**	–
Charge to operating profit	**(21)**	(15)
Finance costs:		
Net pensions finance income on actuarial surplus	**5**	5
Additional pensions finance charge due to minimum funding	**(8)**	(9)
Net finance charge in respect of pensions	**(3)**	(4)
Total charge	**(24)**	(19)

Group statement of comprehensive income	**2021 52 weeks £m**	2020 52 weeks £m
Return on scheme assets and effects of changes in assumptions	**19**	(22)
Movement in pension liabilities recognised due to minimum funding	**(10)**	25
Remeasurement of pension liabilities	**9**	3

Group balance sheet	**2021 £m**	2020 £m
Fair value of schemes' assets	**2,808**	2,736
Present value of schemes' liabilities	**(2,438)**	(2,434)
Actuarial surplus in the schemes	**370**	302
Additional liabilities recognised due to minimum funding	**(513)**	(495)
Total pension liabilities[a]	**(143)**	(193)
Associated deferred tax asset (note 2.4)	**31**	36

a. The total pension liabilities of £143m (2020 £193m) is presented as a £51m current liability (2020 £51m) and a £92m non-current liability (2020 £142m).

Notes to the consolidated financial statements continued

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	
	2021 £m	2020 £m
Fair value of schemes' assets at beginning of period	**2,736**	2,739
Interest income	**44**	48
Remeasurement gain:		
– Return on schemes' assets (excluding amounts included in net finance charge)	**67**	33
Additional employer contributions	**52**	25
Benefits paid	**(86)**	(107)
Administration costs	**(5)**	(2)
At end of period	**2,808**	2,736

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

	Defined benefit obligation	
	2021 £m	2020 £m
Present value of defined benefit obligation at beginning of period	**(2,434)**	(2,443)
Interest cost	**(39)**	(43)
Past service cost	**(3)**	–
Benefits paid	**86**	107
Remeasurement losses:		
– Effect of changes in financial assumptions	**(62)**	(26)
– Effect of experience adjustments	**14**	(29)
At end of period[a]	**(2,438)**	(2,434)

a. The defined benefit obligation comprises £39m (2020 £39m) relating to the MABETUS unfunded plan and £2,399m (2020 £2,395m) relating to the funded plans.

The weighted average duration of the defined benefit obligation is 19 years (2020 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:

	2021 £m	2020 £m
Cash and equivalents	**118**	22
Equity instruments	**271**	548
Debt instruments:		
– Bonds	**2,473**	2,517
– Real estate debt	**50**	71
– Infrastructure debt	**134**	128
– Secured income debt	**384**	152
– Absolute return bond funds	**265**	259
– Gilt repurchase transactions	**(906)**	(982)
Gold	**6**	11
Forward foreign exchange contracts	**13**	10
Fair value of assets	**2,808**	2,736

The actual investment return achieved on schemes' assets over the period was 4.1% (2020 3.2%), which represented a gain of £112m (2020 £86m).

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 25 September 2021 the Group paid £13m (2020 £13m) in respect of the defined contribution arrangements, with an additional £3m (2020 £3m) outstanding as at the period end.

At 25 September 2021 the MABPP owed £nil (2020 £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.

SAYE share 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 £3m (2020 £2m).

The Group had five equity-settled share schemes (2020 four) 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 79 to 96.

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 period and no awards under the Share Incentive Plan in the prior period. The fair value of options granted under these schemes is shown below.

Fair value of options granted

	2021	2020
Share Incentive Plan	**285.8p**	–
Restricted Share Plan	**313.6p**	–
Short Term Deferred Incentive Plan	–	466.9p

The following table sets out weighted average information about how the fair value of the Sharesave Plan option grants were calculated. There were no grants under the Sharesave Plan in the prior period.

	2021 Sharesave Plan
Valuation model	**Black-Scholes**
Weighted average share price	**285.8p**
Exercise price	**256.0p**
Expected dividend yield	–
Risk-free interest rate	**0.32%**
Volatility[a]	**41.9%**
Expected life (years)[b]	**4.1**
Weighted average fair value of grants during the period	**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.

Open Offer impact

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. The impact of this is described in note 4.7. As a result, the exercise price for all existing SAYE schemes were reduced and the number of options increased, to ensure that option holders would not be disadvantaged by a dilution of shares. Similarly, the number of options under the existing PRSP schemes were increased, to ensure that option holders were also not disadvantaged.

Notes to the consolidated financial statements continued

Section 4 – Capital structure and financing costs continued

4.6 Share-based payments continued

The weighted average inputs used to calculated the fair value of the incremental options granted under the sharesave plan are as follows.

Valuation model	2021 Open Offer Sharesave Plan Black-Scholes
Weighted average share price	**326.5p**
Exercise price	**216.6p**
Expected dividend yield	**–**
Risk-free interest rate	**0.05%**
Volatility[a]	**73.3%**
Expected life (years)[b]	**1.5**
Weighted average fair value of grants during the period	**152.5p**

The fair value of incremental options granted under the PRSP schemes was £nil.

The incremental fair value of the options granted as a result of the Open Offer is £1m. This has been recognised over the remaining vesting period of the options.

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	
Sharesave Plan	**2021 m**	2020 m	**2021 p**	2020 p
Outstanding at the beginning of the period	**3.4**	5.0	**239.9**	244.0
Adjustment for Open Offer	**0.3**	–	**216.6**	–
Granted	**2.9**	–	**256.0**	–
Exercised	**(0.2)**	(0.6)	**200.8**	270.0
Forfeited	**(0.5)**	(0.9)	**222.6**	239.8
Expired	**(0.5)**	(0.1)	**210.3**	270.9
Outstanding at the end of the period	**5.4**	3.4	**238.3**	239.9
Exercisable at the end of the period	**–**	–	**–**	–

The outstanding options for the SAYE scheme had an exercise price of between 199.4p and 256.0p (2020 between 221.0p and 362.0p) and the weighted average remaining contract life was 2.9 years (2020 2.1 years). The number of forfeited shares in the period includes 353,133 (2020 581,665) cancellations.

SAYE options were exercised on a range of dates. The average share price through the period was 268.0p (2020 283.0p).

	Number of shares	
Share Incentive Plan	**2021 m**	2020 m
Outstanding at the beginning of the period	**1.8**	1.9
Granted	**0.3**	–
Exercised	**(0.2)**	(0.1)
Outstanding at the end of the period	**1.9**	1.8
Exercisable at the end of the period	**1.5**	0.8

Options under the Share Incentive Plan are capable of remaining within the SIP trust indefinitely while participants continue to be employed.

	Number of shares	
Restricted Share Plan	**2021 m**	2020 m
Outstanding at the beginning of the period	**–**	–
Granted	**1.0**	–
Outstanding at the end of the period	**1.0**	–
Exercisable at the end of the period	**–**	–

The weighted average remaining contract life of the RSP options was 2.2 years (2020 nil).

Performance Restricted Share Plan	Number of shares 2021 m	2020 m
Outstanding at the beginning of the period	**5.6**	6.2
Adjustment for Open Offer	**0.4**	–
Granted	–	1.3
Exercised	**(0.1)**	(0.9)
Forfeited	**(0.2)**	(0.1)
Expired	**(2.1)**	(0.9)
Outstanding at the end of the period	**3.6**	5.6
Exercisable at the end of the period	–	–

The weighted average remaining contract life of the PRSP options was 2.6 years (2020 3.0 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.

Called up share capital	2021 Number of shares	2021 £m	2020 Number of shares	2020 £m
Allotted, called up and fully paid				
Ordinary shares of $8\frac{13}{24}$p each				
At start of period	**429,201,117**	**37**	428,577,760	37
Share capital issued[a]	**480,126**	–	623,357	–
Open Offer issued[b]	**166,937,606**	**14**	–	–
At end of period	**596,618,849**	**51**	429,201,117	37

a. The Company issued 480,126 (2020 623,357) shares during the period under share option schemes for a consideration of £nil (2020 £nil). There were no dividends declared in the current period.

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. Earnings per share figures for the comparative period have been restated to reflect the bonus element of the Open Offer as shown in note 2.5.

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 £328m (2020 £2m) has been recognised on shares issued in the period, primarily as a result of the Open Offer as described above.

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.

Notes to the consolidated financial statements continued
Section 4 – Capital structure and financing costs continued

4.7 Equity continued

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 277,144 shares at a cost of £1m (2020 750,000 shares at a cost of £2m) and subscribed for 258,915 shares (2020 nil) at a cost of £nil (2020 £nil). The employee share trusts released 355,632 (2020 1,078,350) shares to employees on the exercise of options and other share awards for a total consideration of £nil (2020 £nil). The 2,667,858 shares held by the trusts at 25 September 2021 had a market value of £7m (2020 2,487,431 shares held had a market value of £3m).

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 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 25 September 2021, the trustees, Equiniti Share Plan Trustees Limited, held 1,853,883 (2020 1,768,611) shares in the Company. Of these shares, 704,622 (2020 604,404) shares are unconditionally available to employees, 509,442 (2020 479,097) shares have been conditionally awarded to employees, 618,682 (2020 607,225) shares have been awarded to employees but are still required to be held within the SIP Trust and the remaining 21,137 (2020 77,885) 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 25 September 2021, the trustees, Sanne Fiduciary Services Limited, were holding 813,975 (2020 718,820) 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 £2,203m at 25 September 2021 (2020 £2,226m). 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:

	2021 52 weeks £m	2020 52 weeks £m
Short-term employee benefits	**3**	3

Movements in share options held by the Directors of Mitchells & Butlers plc are summarised in the Report on Directors' remuneration on pages 79 to 96.

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	
	2021 52 weeks £000	2020 52 weeks £000	**2021 52 weeks £000**	2020 52 weeks £000
Rent charged	**666**	719	**37**	50
Sales of goods and services	**447**	521	**5**	4
Loans	**–**	–	**–**	4
	1,113	1,240	**42**	58

The balance due from 3Sixty Restaurants Limited at 25 September 2021 was £691,000 (2020 £385,000).

The balance due from Fatboy Pub Company at 25 September 2021 was £57,000 (2020 £11,000), net of a provision of £179,000 (2020 £179,000).

Notes to the consolidated financial statements continued
Section 5 – Other notes continued

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
Bede Retail Investments Limited	England and Wales	04125272	Dormant
Lastbrew Limited	England and Wales	00075597	Dormant
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
Standard Commercial Property Investments Limited	England and Wales	01954096	Dormant
ALEX Gaststätten Immobiliengesellschaft mbH	Germany		Property management
ALL BAR ONE Gaststätten Betriebsgesellschaft mbH	Germany		Leisure retailing
ALEX Alsterpavillon Immobilien GmbH & Co KG	Germany		Property management
ALEX Alsterpavillon Management GmbH	Germany		Management company
ALEX Gaststätten Management GmbH	Germany		Management company
Miller & Carter Gaststätten Betriebsgesellschaft mbH	Germany		Leisure retailing
Browns Restaurant (Brighton) Limited	England and Wales	01564302	Dormant
Browns Restaurant (Bristol) Limited	England and Wales	02351724	Dormant
Browns Restaurant (Cambridge) Limited	England and Wales	01237917	Dormant
Browns Restaurant (London) Limited	England and Wales	00291996	Dormant
Browns Restaurant (Oxford) Limited	England and Wales	01730727	Dormant
Browns Restaurants Limited	England and Wales	01001320	Dormant
Intertain (Dining) Limited	England and Wales	07035107	Dormant
Lander & Cook Limited	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 25 September 2021 by virtue of sections 479A and 479C 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.

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 Post balance sheet events

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI.

There is no impact on the reported balance sheet position as described in note 4.5.

5.4 Five year review

	2021 52 weeks £m	2020 52 weeks £m	2019 52 weeks £m	2018 52 weeks £m	2017 53 weeks £m
Revenue	**1,065**	1,475	2,237	2,152	2,180
Operating profit before separately disclosed items	**29**	99	317	303	314
Separately disclosed items	**52**	(91)	(20)	(48)	(106)
Operating profit	**81**	8	297	255	208
Finance costs	**(122)**	(128)	(114)	(119)	(125)
Finance income	**2**	1	1	1	1
Net pensions finance charge	**(3)**	(4)	(7)	(7)	(7)
(Loss)/profit before taxation	**(42)**	(123)	177	130	77
Tax (charge)/credit	**(23)**	11	(34)	(26)	(14)
(Loss)/profit for the period	**(65)**	(112)	143	104	63

Mitchells & Butlers plc Company financial statements

Company balance sheet

25 September 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investments in subsidiaries	5	**1,616**	1,521
Amounts owed by subsidiary undertakings	6	**380**	379
Deferred tax asset	9	**36**	40
		2,032	1,940
Current assets			
Trade and other receivables	6	**170**	81
Current tax asset		**–**	1
Cash and cash equivalents		**115**	63
		285	145
Current liabilities			
Pension liabilities	4	**(51)**	(51)
Borrowings	8	**(25)**	(15)
Trade and other payables	7	**(284)**	(283)
		(360)	(349)
Non-current liabilities			
Pension liabilities	4	**(92)**	(142)
Net assets		**1,865**	1,594
Equity			
Called up share capital	10	**51**	37
Share premium account	10	**356**	28
Capital redemption reserve		**3**	3
Own shares held	10	**(3)**	(3)
Retained earnings		**1,458**	1,529
Total equity		**1,865**	1,594

The Company reported a loss for the 52 weeks ended 25 September 2021 of £106m (52 weeks ended 26 September 2020 loss of £136m).

The Company financial statements were approved by the Board and authorised for issue on 24 November 2021.

They were signed on its behalf by:

Tim Jones
Chief Financial Officer

The accounting policies and the notes on pages 164 to 167 form an integral part of these Company financial statements.

Registered Number: 04551498

Company statement of changes in equity

For the 52 weeks ended 25 September 2021

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares held £m	Retained earnings £m	Total equity £m
At 28 September 2019	37	26	3	(4)	1,655	1,717
Loss after taxation	–	–	–	–	(136)	(136)
Remeasurement of pension liability	–	–	–	–	3	3
Deferred tax on remeasurement of pension liability	–	–	–	–	8	8
Total comprehensive expense	–	–	–	–	(125)	(125)
Share capital issued	–	2	–	–	–	2
Purchase of own shares	–	–	–	(2)	–	(2)
Release of own shares	–	–	–	3	(3)	–
Credit in respect of employee share schemes	–	–	–	–	2	2
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**

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. In the current period, the Company has applied a number of amendments to IFRS Standards as adopted within the UK that are mandatorily effective for an accounting period that begins on or after 1 January 2020, as described in section 1 of the consolidated financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Company financial statements.

Critical accounting judgements and key sources of estimation uncertainty

The critical judgements and estimates of the Company are considered alongside those of the Group. The key critical judgements 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; and the assessment of expected credit loss on amounts owed by subsidiary undertakings as described in note 6. There are no key sources of estimation uncertainty in the current 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 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 loss after tax of £106m (2020 £136m), less dividends of £nil (2020 £nil).

Audit remuneration

Auditor's remuneration for audit services to the Company was £30,000 (2020 £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

	2021 52 weeks	2020 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 79 to 96. The charge recognised for share-based payments in the period is £nil (2020 £nil).

4. Pensions

Accounting policy

The accounting policy for pensions is disclosed in the consolidated financial statements in note 4.5.

Pension liability

At 25 September 2021 the Company's pension liability was £143m (2020 £193m). Of this amount, £51m (2020 £51m) is a current liability and £92m (2020 £142m) 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 151 to 154.

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 28 September 2019	3,353
Additions[a]	47
At 26 September 2020	3,400
Additions[a]	95
At 25 September 2021	**3,495**
Provision	
At 28 September 2019	1,879
Impairment	–
At 26 September 2020	1,879
Impairment	–
At 25 September 2021	**1,879**
Net book value	
At 25 September 2021	**1,616**
At 26 September 2020	1,521
At 28 September 2019	1,474

a. During the current period the Company subscribed for 95 million ordinary shares (2020 47 million) of £1 each in Mitchells and 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 forecast cash flows, discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 1.0% (2020 0.0%). The long-term growth rate has been increased to 1.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast. As a result, the Company's investment in Mitchells and Butlers Holdings (No. 2) Limited has been impaired by £nil (2020 £nil).

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 on site profitability. Forecasts for cash flows of trading subsidiaries have been based on the overall Group forecast for FY 2022 that was in place at the balance sheet date.

6. Trade and other receivables

	2021 £m	2020 £m
Non-current		
Amounts owed by subsidiary undertakings	**380**	379

	2021 £m	2020 £m
Current		
Amounts owed by subsidiary undertakings	**169**	81
	1	–
	170	81

Amounts owed by subsidiary undertakings are repayable on demand. However, £380m (2020 £379m) of these amounts are disclosed as non-current as they are not expected to be settled within the next twelve 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 have 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.

A gross amount of £228m (2020 £131m) is owed by Mitchells & Butlers Leisure Retail Limited, the management service company within the Mitchells & Butlers group. The securitisation covenants, as described in note 4.1 to the consolidated financial statements, require sufficient headroom to be maintained on the FCF : debt service ratio. As a result Mitchells & Butlers Leisure Retail Limited is not expected to be able to increase future management service charges to the securitised group. It is therefore considered unlikely that Mitchells & Butlers Leisure Retail Limited will become profitable and hence will be unable to fully repay the amount owed to the Company in future periods. A lifetime ECL of £228m (2020 £131m) has therefore been recognised at the period end against this balance.

The assessment of lifetime ECL for the remaining amounts owed by subsidiary undertakings has been performed with no requirement to recognise a provision in either the current or prior period.

The Directors consider that the carrying value of amounts owed by subsidiary undertakings approximately equates to their fair value.

7. Trade and other payables

	2021 £m	2020 £m
Amounts owed to subsidiary undertakings[a]	**282**	282
Accrued charges	**1**	1
Other payables	**1**	–
	284	283

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:

	2021 £m	2020 £m
Current		
Bank overdraft	**25**	15
Total borrowings	**25**	15

Unsecured revolving credit facility

The Company holds an uncommitted gross overdraft facility of £50m (2020 £50m) as part of the Group's notional pooling arrangements with a net facility limit of £5m (2020 £5m) across the participating Group companies. The amount drawn at 25 September 2021 is £25m (2020 £15m).

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 28 September 2019	41
Charged to income statement – pensions	(8)
Charged to income statement – tax losses	(1)
Credited to other comprehensive income – pensions	8
At 26 September 2020	40
Charged to income statement – pensions	(29)
Credited to income statement – tax losses	1
Credited to other comprehensive income – pensions	24
At 25 September 2021	**36**

Analysed as tax timing differences related to:

	2021 £m	2020 £m
Pensions	**31**	36
Tax losses[a]	**4**	3
Share-based payments	**1**	1
	36	40

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 profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 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 2021 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
Adjusted loss per share (EPS)	Loss per share using loss 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 is not considered an appropriate comparison 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 a new measure 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.

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. As like-for-like sales can only be measured when sites are trading the measure also excludes periods of closure in response to Covid-19.

	Source	**2021 52 weeks £m**	2019 52 weeks £m	2021 vs. 2019 LFL %
Reported revenue	Note 2.3	**1,065**	2,237	(52.4)%
Less non like-for-like sales and income		**(199)**	(1,279)	84.4%
Like-for-like sales		**866**	958	(9.6)%

Drink sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	2021 vs. 2019 LFL %
Reported drink revenue	Note 2.3	**413.5**	1,024.8	(59.7)%
Less non like-for-like drink sales		**(63.6)**	(578.6)	89.0%
Drink like-for-like sales		**349.9**	446.2	(21.6)%

Food sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	2021 vs. 2019 LFL %
Reported food revenue	Note 2.3	**592.4**	1,136.5	(47.9)%
Less non like-for-like food sales		**(98.6)**	(654.6)	84.9%
Food like-for-like sales		**493.8**	481.9	2.5%

Other sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	2021 vs. 2019 LFL %
Reported other revenue	Note 2.3	**59.4**	75.2	(21.0)%
Less non like-for-like other sales		**(37.5)**	(45.7)	17.9%
Other like-for-like sales		**21.9**	29.5	(25.8)%

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 (see note 2.2). Excluding these items allows a better understanding of the trading of the Group.

	Source	**2021 52 weeks £m**	2020 52 weeks £m	Year-on-year %
Operating profit	Income statement	**81**	8	912.5%
Separately disclosed items	Note 2.2	**(52)**	91	(157.1)%
Adjusted operating profit		**29**	99	(70.7)%
Reported revenue	Income statement	**1,065**	1,475	(27.8)%
Adjusted operating margin		**2.7%**	6.7%	(4.0)ppts

C. Adjusted loss per share

Loss per share using 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 a better understanding of the trading of the Group.

	Source	**2021 52 weeks £m**	2020 52 weeks £m	Year-on-year %
Loss for the period	Income statement	**(65)**	(112)	42.0%
(Deduct)/add back separately disclosed items	Income statement	**(12)**	85	(114.1)%
Adjusted loss		**(77)**	(27)	(185.2)%
Basic weighted average number of shares	Note 2.5	**566**	474	19.4%
Adjusted loss per share		**(13.6)p**	(5.7)p	(138.6)%

Alternative performance measures continued

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 IFRS16. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

Due to the Covid-19 closure period we do not have a representative 52 week EBITDA measure to calculate this metric and therefore it has not been used in these financial statements.

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 closure periods and reduced trading levels due to Covid-19 restrictions that are captured in the calculation.

Return on expansionary capital

	Source	2020 FY 2017–20 £m	2021 FY 2018–20 £m	2021 FY 2021 £m	**2021 Total £m**
Maintenance and infrastructure		221	168	14	**182**
Remodel – refurbishment		224	182	9	**191**
Non-expansionary capital		445	350	23	**373**
Remodel expansionary		28	14	0	**14**
Conversions and acquisitions*		111	55	0	**55**
Expansionary capital for return calculation		139	69	0	**69**
Expansionary capital open < 3 periods pre year end		16	13	10	**23**
Total capital	Cash flow	600	432	33	**465**
Adjusted EBITDA	Income statement	1,532	1,111	168	**1,279**
Non-incremental EBITDA		(1,530)	(1,112)	(168)	**(1,280)**
Incremental EBITDA		2	(1)	0	**(1)**
Return on expansionary capital		1%	(1)%	0%	**(1)%**

* Conversion and acquisition capital is net of capex incurred for projects which have been open for less than 3 periods pre year end.

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http://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. For the current status visit the financial calendar on our website at www.mbplc.com/investors

Annual General Meeting	January 2022
Announcement of interim results	May 2022
Pre-close trading update	September 2022
2022 final results announcement	November 2022

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

Castle
www.mbplc.com/findapub

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
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@Nicholsonspubs

O'Neill's
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@ONeillsPubs

Premium Country Pubs
www.mbplc.com/findapub

Sizzling Pubs
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@SizzlingPubs

Stonehouse Pizza & Carvery
www.stonehouserestaurants.co.uk
@stonehousepizza

Toby Carvery
www.tobycarvery.co.uk
@tobycarvery

Vintage Inns
www.vintageinn.co.uk
@Vintage_Inns

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