MITCHELLS & BUTLERS PLC
LEI no: 213800JHYNDNB1NS2W10

7 December 2022

FULL YEAR RESULTS

(For the 52 weeks ended 24 September 2022)

Highlights

- Like-for-like sales[a] growth for the year of 1.1% against FY 2019 (pre Covid-19)
- Excluding the impact of utilities, profits broadly recovered to pre Covid-19 levels
- Encouraging start to the new year with like-for-like sales[a] growth of 6.5% against FY 2022 in ten weeks since the end of the financial year (9.2% growth against FY 2019)

Reported results

- Total revenue of £2,208m (FY 2021 £1,065m)
- Operating profit of £124m (FY 2021 £81m)
- Profit before tax of £8m (FY 2021 £(42)m loss)
- Basic earnings per share of 2.2p (FY 2021 (11.5)p loss)

Trading results

- Adjusted operating profit[a] £240m (FY 2021 £29m)
- Adjusted earnings per share[a] 18.0p (FY 2021 (13.6)p loss)

Balance sheet and cash flow

- Cash inflow before bond amortisation of £71m (FY 2021 inflow £174m, including gross equity proceeds of £351m)
- Cash balances on hand of £190m at year end (FY 2021 £227m) with undrawn unsecured committed financing facilities of £150m to February 2024
- Net debt[a] reduced to £1,198m (FY 2021 £1,270m), excluding £481m of IFRS 16 lease liabilities (FY 2021 £513m)
- Net assets increased to £2,143m (FY 2021 £2,104m)

Phil Urban, Chief Executive, commented:

"The trading environment remains highly challenging, with cost inflation continuing to put pressure on margins and we are ever mindful of the pressures that the UK consumer is facing. However, we are encouraged by the strength of sales growth at the end of last financial year which has improved further into the early weeks of this year.

We remain focused on the delivery of our Ignite programme with existing and new initiatives driving cost efficiencies and increased sales, alongside our capital investment programme. Combined with our diverse portfolio of well-known brands, value proposition, strong estate locations and talented people, we are well positioned to face both the challenges and opportunities ahead."

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. APMs are explained later in this announcement.

There will be a presentation held today at 8:30am accessible by phone on 020 3936 2999, access code: 643020 and at https://www.netroadshow.com/events/login?show=dc48af11&confId=43454 The slides will also be available on the website at www.mbplc.com The replay will then be available at http://www.mbplc.com/fy2022/analystspresentation

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

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Note for editors:
Mitchells & Butlers is a leading operator of managed restaurants and pubs. Its 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, it operates Innkeeper's Collection hotels in the UK and Alex restaurants and bars in Germany. Further details are available at www.mbplc.com and supporting photography can be downloaded at www.mbplc.com/imagelibrary.

CURRENT TRADING AND OUTLOOK

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

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

Cost inflation headwinds continue to present a significant challenge for the sector as a whole, notably in energy, food and wages but now evident throughout our supply chains. Overall for the current year, we anticipate an inflationary cost headwind across our c.£1.8 billion cost base in the region of 10-12% before mitigation. The Energy Price Guarantee from the Government for businesses for 6 months from 1 October 2022 was welcome but energy costs are still expected to increase this year and significant uncertainty remains over the second half. At the current time we have bought forward 45% of this financial year's anticipated energy requirement.

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

BUSINESS REVIEW

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

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

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

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

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

OUR STRATEGIC PRIORITIES

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

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

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

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

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

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

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

PEOPLE

Our fantastic team of over 46,000 people are central to the performance of our business, delivering the all-important experiences guests have with us. FY 2022 presented the industry with a challenging recruitment environment with wide-spread staffing issues across the country, largely as a result of losing people during furlough to other sectors and the absence of the EU talent pool. Therefore, our focus on attracting, training and retaining great people was more important to our organisation than ever and we were pleased that employee numbers recovered to pre-pandemic levels during the second half of the year. Staff turnover has stabilised through the year which is an important factor as lower turnover has a positive impact on guest experience. We are also delighted that our team engagement scores have continued to improve over the course of the year and are now at near record highs.

In order to retain our teams, we are committed to providing progression opportunities and development facilitated through training and a strong centralised HR function. We are proud of the work we have done on our apprentice scheme which we believe will provide excellent future talent to our organisation, from front and back of house roles in our pubs and restaurants to corporate roles in our head office. This year over 1,000 apprentices have joined our business and a similar number of our current employees have enrolled onto one of the apprenticeship opportunities open to them. In the year ahead, we will continue to expand our apprenticeship opportunities from Level 2 through to Level 7 and have a passion to keep growing our own apprenticeship talent, aspiring to recruit a further 1,000 new apprentices in addition to accelerating the careers of 1,000 current employees. Given the importance of developing and retaining chefs, M&B continue to grow our culinary capability via our Chefs' Academy. 175 of our chefs have embarked on the Commis Chef apprenticeship delivered by our award-winning tutors.

SUSTAINABILITY

We are committed to reducing the environmental impact of our business and the Board has agreed even more challenging targets to drive momentum in this area. We have committed to:

- Net Zero emissions by 2040, including scope 1, 2 and 3 emissions; we will submit our roadmap to net zero for Science Based Target Initiative approval next calendar year. We are founding members of the Zero Carbon Forum and are committed to playing our part in decarbonising the hospitality industry as a whole.

- Zero operational waste to landfill by 2030; we have made great progress in this area in recent years and currently divert 96% of operational waste away from landfill. We have underpinned this ambition with a recycling rate target of 80% over the same period.

- 50% reduction in food waste by 2030; aligned with the UN Sustainable Development Goals we will halve food waste in our supply chain and in sites by 2030. As at the year end, we have achieved 29% reduction in food waste since our 2019 baseline, driven by operational improvements and aided by partnerships with Fareshare and Too Good to Go.

We have a number of initiatives underway to support these ambitions. Food emissions are the largest contributor to our carbon footprint and during the year we conducted two successful menu trials which significantly reduced emissions. We will take the learnings from these trials forward to expand the programme, which involved working closely with suppliers. We are also developing a transition plan to remove gas from our businesses through the electrification of our kitchens, finding alternative heating solutions to gas boilers and the trial of onsite renewable energy generation.

Our sustainability strategy has a strong focus on the positive impact we have on people and communities. For example, we are committed to enhancing the wellbeing of our own people, and we have an established nutritional strategy aiming to provide balanced choices and information to guests. We have also developed charitable partnerships with Shelter and Social Bite through which we are helping to tackle the growing issue of homelessness in the UK.

FINANCIAL REVIEW

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

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

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

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

Revenue

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

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

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

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

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

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

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

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

Separately disclosed items

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

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

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

Operating profit and margins[a]

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

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

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

We continue to work very hard to mitigate as much of the impact of these cost increases as we can, both through driving sales growth and through identifying and implementing further cost efficiencies, all executed under our Ignite programme of work. Looking forward, we anticipate an aggregate cost headwind in the region of 10-12%

on our cost base of c.£1.8 billion this year before mitigation, with operating margins remaining lower than pre-Covid levels in the medium term.

Government Support

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

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

The Group also 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% applied for the subsequent six months until 31 March 2022. The estimated impact of this on food and drink revenue in FY 2022 is £43m (FY 2021 £81m).

Interest

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

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

Earnings per share

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

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

Cash flow

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

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

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

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

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

Capital expenditure

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

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

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

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

Property

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

Pensions

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

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

Net debt[a] and facilities

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

In addition to the securitisation, the Group has a £150 million unsecured facility expiring in February 2024. Further details of existing debt arrangements and an analysis of net debt[a] can be found in Note 9 to the financial statements and at https://www.mbplc.com/infocentre/debtinformation/.

Going Concern

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

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

Director's responsibility statement

The 2022 Annual Report and Accounts which will be issued in December 2022, contains a responsibility statement in compliance with DTR 4.1.12 of the Listing Rules which sets out that as at the date of approval of the Annual Report on 6 December 2022, the Directors confirm to the best of their knowledge:

- the Group and unconsolidated Company financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company, and the undertakings included in the consolidation taken as a whole; and

- the performance review contained in the Annual Report and Accounts includes a fair review of the development and performance of the business and the position of the Group and the undertakings including the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 6 December 2022 and is signed on its behalf by:

Tim Jones
Chief Financial Officer
6 December 2022

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 later in this announcement.

Group income statement

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks			2021 52 weeks		
		Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2	2,208	-	2,208	1,065	-	1,065
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3	(1,836)	-	(1,836)	(898)	13	(885)
Share in associates results		1	-	1	1	-	1
Net profit arising on property disposals		-	1	1	-	1	1
EBITDA[b] before movements in the valuation of the property portfolio		373	1	374	168	14	182
Depreciation, amortisation and movements in the valuation of the property portfolio	3	(133)	(117)	(250)	(139)	38	(101)
Operating profit/(loss)		240	(116)	124	29	52	81
Finance costs	10	(115)	-	(115)	(122)	-	(122)
Finance income	10	1	-	1	2	-	2
Net pensions finance charge	10, 11	(2)	-	(2)	(3)	-	(3)
Profit/(loss) before tax		124	(116)	8	(94)	52	(42)
Tax (charge)/credit	5	(17)	22	5	17	(40)	(23)
Profit/(loss) for the period		107	(94)	13	(77)	12	(65)
Earnings/(loss) per ordinary share							
Basic	6	18.0p		2.2p	(13.6)p		(11.5)p
Diluted	6	18.0p		2.2p	(13.6)p		(11.5)p

a. Separately disclosed items are explained and analysed in note 3.
b. Earnings before interest, tax, depreciation, amortisation and movements in the valuation of the property portfolio. The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. These measures are explained later in this announcement.

All results relate to continuing operations.

Group statement of comprehensive income

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) for the period		13	(65)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised (loss)/gain on revaluation of the property portfolio	7	(187)	150
Remeasurement of pension liability	11	41	9
Tax relating to items not reclassified	5	32	(97)
		(114)	62
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		2	(1)
Cash flow hedges:			
- Gains arising during the period		180	32
- Reclassification adjustments for items included in profit or loss		1	56
Tax relating to items that may be reclassified	5	(45)	(4)
		138	83
Other comprehensive income after tax		24	145
Total comprehensive income for the period		37	80

Group balance sheet

24 September 2022

	Notes	2022 £m	2021 £m
Assets			
Goodwill and other intangible assets		14	13
Property, plant and equipment	7	4,194	4,442
Right-of-use assets	8	339	379
Interests in associates		6	5
Finance lease receivables		12	14
Deferred tax asset		4	4
Derivative financial instruments		56	29
Total non-current assets			
		4,625	4,886
Inventories		23	19
Trade and other receivables		90	48
Current tax asset		1	3
Finance lease receivables		1	1
Derivative financial instruments		4	-
Cash and cash equivalents	9	207	252
Total current assets		326	323
Total assets		4,951	5,209
Liabilities			
Pension liabilities	11	(42)	(51)
Trade and other payables		(408)	(333)
Current tax liabilities		-	(2)
Borrowings	9	(130)	(134)
Lease liabilities	8	(53)	(50)
Derivative financial instruments		-	(37)
Total current liabilities			
		(633)	(607)
Pension liabilities	11	(22)	(92)
Borrowings	9	(1,334)	(1,416)
Lease liabilities	8	(428)	(463)
Derivative financial instruments		(28)	(172)
Deferred tax liabilities		(354)	(346)
Provisions		(9)	(9)
Total non-current liabilities		(2,175)	(2,498)
Total liabilities		(2,808)	(3,105)
Net assets		2,143	2,104
Equity			
Called up share capital	12	51	51
Share premium account	12	357	356
Capital redemption reserve		3	3
Revaluation reserve		1,009	1,150
Own shares held		(5)	(3)
Hedging reserve		(20)	(156)
Translation reserve		15	13
Retained earnings		733	690
Total equity		2,143	2,104

Group statement of changes in equity

For the 52 weeks ended 24 September 2022

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

Group cash flow statement

For the 52 weeks ended 24 September 2022

	Notes	2022 52 weeks £m	2021 52 weeks £m
Cash flow from operations			
Operating profit		124	81
Add back/(deduct):			
Movement in the valuation of the property portfolio	3	117	(38)
Net profit arising on property disposals	3	(1)	(1)
Depreciation of property, plant and equipment	7	93	98
Amortisation of intangibles		4	4
Depreciation of right-of-use assets	8	36	37
Loss on disposal of fixtures, fittings and equipment		-	2
Cost charged in respect of share-based payments		4	3
Past service cost in relation to the defined benefit pension obligation	11	-	3
Administrative pension costs	11	4	5
Share of associates results		(1)	(1)
Impairment of finance lease receivables		-	2
Operating cash flow before movements in working capital and additional pension contributions		380	195
(Increase)/decrease in inventories		(3)	3
Increase in trade and other receivables		(19)	(7)
Increase in trade and other payables		42	10
(Decrease)/increase in provisions		(1)	1
Additional pension contributions	11	(44)	(52)
Cash flow from operations		355	150
Interest payments[a]		(67)	(65)
Interest payments on interest rate swaps[a]		(33)	(40)
Interest receipts on cross currency swap[a]		1	1
Interest payments on cross currency swap[a]		(1)	(1)
Other interest paid - lease liabilities		(16)	(21)
Borrowing facility fees paid		-	(1)
Interest received	10	1	1
Tax (paid)/received		(2)	1
Net cash from operating activities		238	25
Investing activities			
Purchases of property, plant and equipment		(117)	(29)
Purchases of intangible assets		(5)	(4)
Proceeds from sale of property, plant and equipment		1	1
Finance lease principal repayments received		3	-
Net cash used in investing activities		(118)	(32)
Financing activities			
Issue of ordinary share capital	12	1	342
Purchase of own shares		(2)	(1)
Repayment of principal in respect of securitised debt[b]	9	(115)	(107)
Principal receipts on currency swap[b]	9	20	17
Principal payments on currency swap[b]	9	(15)	(14)
Repayment of liquidity facility		-	(9)
Repayment of term loan		-	(100)
Repayment of unsecured revolving credit facilities		-	(10)
Cash payments for the principal portion of lease liabilities	9	(48)	(41)
Net cash (used in)/from financing activities		(159)	77
Net (decrease)/increase in cash and cash equivalents		(39)	70
Cash and cash equivalents at the beginning of the period	9	227	158
Foreign exchange movements		2	(1)
Cash and cash equivalents at the end of the period	9	190	227

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

Notes to the consolidated financial statements

1. Preparation of preliminary consolidated financial statements

General information
Mitchells & Butlers plc, along with its subsidiaries, (together 'the Group') is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted within the UK and in accordance with the Companies Act 2006. While the financial information included in this release is based on the Group's consolidated financial statements and has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The preliminary financial statements include the results of Mitchells & Butlers plc and all its subsidiaries for the 52 week period ended 24 September 2022. The comparative period is for the 52 week period ended 25 September 2021. The respective balance sheets have been drawn up as at 24 September 2022 and 25 September 2021.

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.

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

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

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

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

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

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

Unsecured facilities were initially measured only against a liquidity covenant, against which there was substantial headroom, until the end of Q3 FY22. Following this date further covenants were introduced relating to the ratio of EBITDAR to rent plus interest (at a minimum of 1.5 times) and net debt to EBITDA (to be no more than 3.0 times) based on the performance of the unsecured estate, both tested on a half-yearly basis.

Notes to the consolidated financial statements (continued)

1. Preparation of preliminary consolidated financial statements (continued)

Going concern (continued)

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

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

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

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

Foreign currencies

The results of overseas operations have been translated into sterling at the weighted average euro rate of exchange for the period of £1 = €1.18 (2021 £1 = €1.15), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.12 (2021 £1 = €1.17) and £1 = $1.09 (2021 £1 = $1.37) respectively.

New and amended IFRS Standards that are effective for the current period

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations which have been adopted by the Group in these consolidated financial statements for the first time with the following impact.

Notes to the consolidated financial statements (continued)

1. Preparation of preliminary consolidated financial statements (continued)

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)

The Group has adopted the amendments to IFRS 9, included in Phase 2 of the Interest Rate Benchmark Reform, in the current period, which address issues that might affect financial reporting during the reform of an interest rate benchmark. This includes the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

A number of the Group's financial instruments had LIBOR as their interest reference rate at the start of the period. During the period, the Group completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of sterling and a Secured Overnight Financing Rate (SOFR) based rate in respect of US dollars. The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap providers (using amended reference rates consistent with those agreed under the bonds). All sterling based facilities and agreements referencing sterling LIBOR transitioned in the period and now reference SONIA, plus a credit adjustment spread of 11.93 basis points to maintain an economically equivalent position, for periods commencing on or after 1 January 2022. The facilities currently referencing US dollar LIBOR will transition to SOFR plus 26.161 basis points for periods commencing on or after 1 July 2023. The liquidity facility and the unsecured committed facility were arranged on a SONIA basis in the prior period, so did not require any further amendment.

As part of the transition, all of the Group's hedge relationships have been reviewed and these continue to be highly effective. Hedge documentation has been updated in accordance with the reliefs permitted in the amendments to IFRS 9, designating the new interest reference rate in both the hedged item and the hedging instrument. As a result of the transition, there has been no impact on the amounts recognised in the income statement or statement of other comprehensive income.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, income and expense.

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

In the current and prior periods there has been significant judgement in the following areas:

- Going concern assessment - including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review above.
- Fair value of freehold and long leasehold properties – see note 7

Other areas of judgement are described in each section listed below:

- Note 3 Separately disclosed items
- Note 7 Property, plant and equipment
- Note 8 Leases
- Note 11 Pensions

Other sources of estimation uncertainty are described in:

- Note 7 Property, plant and equipment
- Note 8 Leases
- Note 11 Pensions

2. Segmental analysis

Operating segments
IFRS 8 Operating Segments requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker (CODM). The CODM is regarded as the Chief Executive together with other Board members. The Group trades in one business segment (that of operating pubs and restaurants) and the Group's brands meet the aggregation criteria set out in Paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include: expected future financial performance; operating and competitive risks; and return on invested capital. As such, the Group reports the business as one reportable business segment.

The CODM uses EBITDA and operating profit before interest and separately disclosed items as the key measures of the Group's results on an aggregated basis.

Geographical segments
Substantially all of the Group's business is conducted in the United Kingdom. In presenting information by geographical segment, segment revenue and non-current assets are based on the geographical location of customers and assets.

Geographical segments

	UK		Germany		Total	
	2022 52 weeks £m	2021 52 weeks £m	2022 52 weeks £m	2021 52 weeks £m	2022 52 weeks £m	2021 52 weeks £m
Revenue – sales to third parties	2,117	1,009	91	56	2,208	1,065
Segment non-current assets[a]	4,524	4,817	41	36	4,565	4,853

a. Includes balances relating to intangibles, property, plant and equipment, right-of-use assets, investments in associates and finance lease receivables.

3. Separately disclosed items

The items identified in the current period are as follows:

	Notes	2022 52 weeks £m	2021 52 weeks £m
Separately disclosed items			
Past service cost in relation to the defined benefit obligation	a	-	(3)
Costs directly associated with Covid-19 and the enforced closure of pubs	b	-	(4)
Gaming machine settlement	c	-	20
Total separately disclosed items recognised within operating costs		-	13
Net profit arising on property disposals		1	1
Movement in the valuation of the property portfolio:			
- (Impairment charge)/impairment reversal arising from the revaluation of freehold and long leasehold properties	d	(86)	51
- Impairment of freehold and long leasehold tenant's fixtures and fittings	e	-	(3)
- Impairment of short leasehold and unlicensed properties	f	(9)	(2)
- Impairment of right-of-use assets	g	(22)	(8)
Net movement in the valuation of the property portfolio		(117)	38
Total separately disclosed items before tax		(116)	52
Tax credit/(charge) relating to above items		22	(11)
Tax charge relating to change in tax rate	h	-	(29)
		22	(40)
Total separately disclosed items after tax		(94)	12

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) equalisition. This latest judgement followed on from the ruling regarding GMPs on 26 October 2018 and requires that schemes make a top-up payment to any member who exercised their statutory right to transfer benefits to an alternative scheme. The top-up payment should be the shortfall between the original transfer payments and what would have been paid if benefits had been equalised at the time, with interest in line with bank base rate plus 1% each year. The past service cost recognised in the prior period was an estimate of the impact to the Group's schemes as a result of this ruling.

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. In the prior period, a decision of a First-Tier tribunal in the case of the Rank Group Plc against HMRC, for the period post-2005, was given in favour of the taxpayers, with HMRC subsequently confirming it will not appeal against the decision and will now pay valid claims. As a result, the Group resubmitted a claim to HMRC covering the period from 2005 to 2012 for VAT on gaming machine income. An estimate of the amount receivable, including interest, of £20m was recognised in the prior period.

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 7 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 7 for further details.

f. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amounts. See note 7 for further details.

g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 8 for further details.
h. A deferred tax charge was recognised in the prior period following the substantive enactment of legislation which increased the UK standard rate of corporation tax from 19% to 25% from 1 April 2023.

4. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

Local Authority grants

Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent enforced closure of the business, the Mitchells & Butlers Group (MAB), under the Temporary Framework for State Aid for Covid-19 Reponses (TF), has received a number of different areas of support from both local and central Government in the UK and also Germany. During the prior period, the Group applied for various Local Authority grants as a result of both local and national restrictions that required pubs and restaurants to close. Under these schemes, businesses in the retail, hospitality and leisure sectors in England and Germany were entitled to one-off cash grants for each business impacted. The maximum amount the Group was able to claim was £10.9m as a result of the State Aid cap. However, following the EU Court ruling on State Aid aggregation, it has now become clear that aid provided to a Group via different countries does not require aggregation for the purposes of the State Aid cap provided there is sufficient autonomy between subsidiaries operating in different countries. As a result, the Group has sufficient headroom to recognise further support, albeit subject to the individual caps applicable in both the UK and Germany. This has resulted in the recognition of an additional £2m of income in the current period.

Following the outbreak of the Omicron variant of Covid-19 in the UK in November 2021, the Government introduced some further grants to help support businesses in the leisure and hospitality sectors. Under this scheme, the maximum amount the Group was able to claim was £1.3m.

German Government grants

During the prior period, the Group was entitled to receive Government assistance in Germany as a result of Covid-19 in relation to the pubs and restaurants that are operated there. Assistance was received in relation to staff wages and salaries under Kurzarbeit. In addition the German Government provided grants to assist with loss of profits during enforced closure periods under the November 2020 Support and December 2020 Support schemes, as well as the Fixed Cost Bridging Aid scheme. These grants all fell outside of the Temporary Framework and were therefore excluded from the State Aid maximum rules. Following the impact of the Omicron variant in December 2021, further grant claims have been made in the current period for costs incurred during periods of significantly lower sales under an extension of the Bridging Aid scheme.

Business rates

Businesses in the retail, hospitality and leisure sectors in England, Scotland and Wales were granted 100% business rates relief for the 2020/21 rates year, covering the period from 1 April 2020 to 31 March 2021. An additional three months of 100% business rates relief was granted to cover 1 April 2021 to 30 June 2021. Following this, in England, business rates were discounted by two-thirds from 1 July 2021 until 31 March 2022, subject to a £2m cap. In Scotland and Wales, there was an extension of 100% rates relief for hospitality businesses until 31 March 2022.

Apprenticeship incentives

The Group is entitled to claim £1,000 for each apprentice employed, where they are aged 16 to 18, or under 25 and meet certain other criteria.

As part of its response to the Covid-19 pandemic, the UK Government introduced a scheme to enable an employer to receive up to an additional £3,000 per apprentice, where the apprentice commenced employment between 1 August 2020 and 31 January 2022. The payment is phased with amounts due in equal instalments at 90 days and 365 days after employment commenced and is recognised on receipt of cash.

4. Government grants (continued)

Coronavirus Job Retention Scheme (CJRS)
Under this scheme, HMRC reimbursed up to 80% of the wages of certain employees who were furloughed. The scheme was designed to compensate for staff costs, so amounts received were recognised in the income statement over the same period as the costs to which they relate. In the income statement, operating costs are shown net of grant income received. The scheme commenced on 20 March 2020 and continued until 30 September 2021. A similar scheme operated in Germany (Kurzarbeit).

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

Government grant scheme	**Income statement line impact**	2022 52 weeks £m	2021 52 weeks £m
Local Authority Grants (UK and Germany)	Revenue – other	3	11
Grants for loss of profits in Germany	Revenue – other	1	14
Apprenticeship incentives	Revenue – other	1	-
Coronavirus Job Retention Scheme	Operating costs before separately disclosed items	-	210
Government assistance for wages and salaries in Germany (Kuzarbeit)	Operating costs before separately disclosed items	-	9
Total Government grants received		5	244

In addition to the grants received above, the impact in the current period of business rates relief received, across all sites within the UK, is an estimated saving of £5m (2021 £75m).

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

5. Taxation

Taxation - Group income statement

	2022 52 weeks £m	2021 52 weeks £m
Current tax:		
- Corporation tax	(3)	(2)
- Amounts over provided in prior periods	1	4
Total current tax (charge)/credit	(2)	2
Deferred tax:		
- Origination and reversal of temporary differences	3	8
- Effect of changes in UK tax rate	4	(29)
- Adjustments in respect of prior periods	-	(4)
Total deferred tax credit/(charge)	7	(25)
Total tax credit/(charge) in the Group income statement	5	(23)
Further analysed as tax relating to:		
Profit/(loss) before separately disclosed items	(17)	17
Separately disclosed items	22	(40)
	5	(23)

The standard rate of corporation tax applied to the reported profit/(loss) is 19.0% (2021 19.0%).

The tax credit (2021 charge) in the Group income statement for the period is lower than (2021 lower) the standard rate of corporation tax in the UK. The differences are reconciled below:

	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) before tax	8	(42)
Taxation (charge)/credit at the UK standard rate of corporation tax of 19.0% (2021 19.0%)	(1)	8
Expenses not deductible	(2)	(2)
Income not taxable	4	1
Tax credit/(charge) in respect of change in UK tax rate	4	(29)
Adjustment in respect of prior periods	1	-
Effect of different tax rates of subsidiaries in other jurisdictions	(1)	(1)
Total tax credit/(charge) in the Group income statement	5	(23)

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

5. Taxation (continued)

	2022 52 weeks £m	2021 52 weeks £m
Deferred tax in the Group income statement:		
Accelerated capital allowances	(12)	(13)
Retirement benefit obligations	(8)	(29)
Unrealised gains on revaluations	23	-
Tax losses – UK	(9)	35
Tax losses – Interest restriction	13	-
Share-based payments	-	1
Rolled over and held over gains	-	(19)
Depreciated non qualifying assets	-	(1)
Right-of-use assets	-	1
Total deferred tax credit/(charge) in the Group income statement	7	(25)

Taxation - other comprehensive income

	2022 52 weeks £m	2021 52 weeks £m
Deferred tax:		
Items that will not be reclassified subsequently to profit or loss:		
- Unrealised losses/gains due to revaluations – revaluation reserve	46	(117)
- Unrealised losses/gains due to revaluations – retained earnings	(5)	16
- Rolled over and held over gains – retained earnings	-	(20)
- Remeasurement of pension liability and rate change of pension liability	(9)	24
	32	(97)
Items that may be reclassified subsequently to profit or loss:		
- Cash flow hedges	(45)	(4)
Total tax charge recognised in other comprehensive income	(13)	(101)

	2022 52 weeks £m	2021 52 weeks £m
Tax relating to items recognised directly in equity		
Deferred tax:		
- Tax (charge)/credit related to share-based payments	(1)	2

Factors which may affect future tax charges

The Finance Act 2021 increased the main rate of corporation tax from 19% to 25% with effect from 1 April 2023. The effect of this change has been reflected in the closing deferred tax balances at 25 September 2021 and 24 September 2022.

6. Earnings/(loss) per share

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

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

Adjusted earnings/(loss) per ordinary share amounts are presented before separately disclosed items (see note 3) in order to allow an understanding of the adjusted trading performance of the Group.

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

	2022 52 weeks £m	2021 52 weeks £m
Profit/(loss) for the period	13	(65)
Separately disclosed items, net of tax	94	(12)
Adjusted profit/(loss) for the period[a]	107	(77)

a. Adjusted profit/(loss) and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained later in this announcement.

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

	2022 52 weeks million	2021 52 weeks million
Basic weighted average number of ordinary shares	595	566
Effect of dilutive potential ordinary shares:		
- Contingently issuable shares	1	1
Diluted weighted average number of shares	596	567

	2022 52 weeks pence	2021 52 weeks pence
Basic earnings/(loss) per share		
Basic earnings/(loss) per share	2.2p	(11.5)p
Separately disclosed items net of tax per share	15.8p	(2.1)p
Adjusted basic earnings/(loss) per share	18.0p	(13.6)p
Diluted earnings/(loss) per share		
Diluted earnings/(loss) per share	2.2 p	(11.5) p
Adjusted diluted earnings/(loss) per share[a]	18.0 p	(13.6) p

a. Adjusted earnings/(loss) and adjusted EPS are alternative performance measures (APMs) and are considered critical to aid understanding of the Group's performance. These measures are explained later in this announcement.

At 24 September 2022, 4,839,607 (2021 800,570) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

7. 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.

Revaluation
The revaluation utilises valuation multiples, which are determined via third-party inspection of 20% of the sites such that all sites are individually valued approximately every five years; estimates of fair maintainable trade comprising estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP); and estimated fair value of tenant's fixtures and fittings. Properties are valued as fully operational entities, to include fixtures and fittings but excluding stock and personal goodwill. The value of tenant's fixtures and fittings is then removed from this valuation via reference to its estimated fair value. Where sites have been impacted by expansionary capital investment in the preceding twelve months, fair maintainable trade is taken as the post-investment forecast, as the current period trading performance includes a period of closure.

Valuation multiples derived via third-party inspections determine brand standard multiples which are then used to value the remainder of the non-inspected estate via an extrapolation exercise, with the output of this exercise reviewed at a high level by the Directors and the third-party valuer.

Where the value of land and buildings derived purely from a multiple applied to the fair maintainable trade misrepresents the underlying asset value, for example, due to low levels of income or location characteristics, a spot valuation is applied.

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.

Property, plant and equipment can be analysed as follows:

	2022 £m	2021 £m
At beginning of period	4,442	4,305
Additions	130	43
Net (decrease)/increase from property revaluation	(273)	201
Impairment of short leasehold properties	(9)	(5)
Disposals	(4)	(3)
Depreciation provided during the period	(93)	(98)
Exchange differences	1	(1)
At end of period	4,194	4,442

7. Property, plant and equipment (continued)

Revaluation of freehold and long leasehold properties
The freehold and long leasehold properties have been valued at fair value, as at 24 September 2022, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2022 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the rebuild in trade following reopening as a result of Covid-19, current cost inflationary pressures notably on labour and energy costs, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the current period, CBRE have increased the property multiples by removing the deduction applied in the prior period for the expected impact of Covid-19. Property multiples have returned to pre-Covid levels, with some brand multiples exceeding the pre-Covid level, which is a reflection of the current demand in the freehold licensed property market.

Impairment review
Short leasehold and unlicensed properties (comprising land, buildings, fixtures, fittings and equipment) which are not revalued to fair market value, are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the value in use calculations are insufficient to justify their current net book value.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance pre-tax cash flows, for years 1 to 3. These include steady growth in revenue and cost increases, notably across energy, labour and food, equivalent to c.10% of the cost base in year 1, with an easing of inflationary pressure in years 2 and 3, as recent increases in energy prices are assumed to reduce, albeit they remain significantly ahead of historical levels. The forecast cash flows are discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%) and a long-term growth rate of 2.0% from year 4 (2021 2.0%). The long-term growth rate is applied to the net cash flows and is based on up-to-date economic data points.

The impact of the revaluations/impairments described above is as follows:

	2022 52 weeks £m	2021 52 weeks £m
Group income statement		
Revaluation deficit charged as an impairment	(115)	(2)
Reversal of past revaluation deficits	29	53
Total impairment (impairment charge)/reversal arising from the revaluation	(86)	51
Impairment of short leasehold and unlicensed properties	(9)	(2)
Impairment of freehold and long leasehold tenant's fixtures and fittings	-	(3)
Total impairment of short leaseholds, unlicensed properties and tenant's fixtures and fittings	(9)	(5)
Total (impairment charge)/ impairment reversal recognised in the income statement	(95)	46
Group statement of other comprehensive income		
Unrealised revaluation surplus	60	154
Reversal of past revaluation surplus	(247)	(4)
Total movement recognised in other comprehensive income	(187)	150
Net (decrease)/increase in property, plant and equipment	(282)	196

7. Property, plant and equipment (continued)

Accounting judgements

Revaluation of freehold and long leasehold properties
The revaluation methodology is determined, with advice from third-party valuers, incorporating management judgement where appropriate. The application of a valuation multiple to the fair maintainable trade of each site is considered the most appropriate method for the Group to determine the fair value of freehold and long leasehold licensed land and buildings.

The emergence of the Omicron variant of Covid-19 in November 2021 negatively impacted trade in the first half of the current financial period. As a result fair maintainable trade at 24 September 2022 has been determined by adjusting the prior period fair maintainable trade on the basis of turnover (FMT) and operating profit margin (FMOP) performance trends over the second half of the financial period. This adjustment is a matter of judgement that reflects the extent to which licensed property fair values are being impacted by performance over this period, as advised by third-party valuers.

Where sites have been impacted by expansionary capital investment in the preceding twelve months, management judgement is used to determine the most appropriate source of site level fair maintainable trade, as the current period trading performance includes a period of closure. Fair maintainable trade has been determined by estimating both FMT and FMOP by reference to post-investment forecasts and turnover trends post opening.

Brand standard property multiples have been established by CBRE via third-party inspections of 20% of the freehold and long leasehold licensed property estate. Market conditions that resulted in Covid-19 multiple reductions in the prior period are no longer considered relevant by CBRE due to the strength of the property market. As a result the average multiple adopted has increased at 24 September 2022.

Impairment review of short leasehold and unlicensed properties
For the short leasehold property impairment review, judgement has been applied to determine the most appropriate site level profit and cash flow forecasts based on the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date.

Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributable to a site on a consistent basis.

Significant accounting estimates

Revaluation of freehold and long leasehold properties
The application of the valuation methodology requires two significant estimates; the estimation of valuation multiples, which are determined via third-party inspections; and an estimate of fair maintainable trade, consisting of estimates of both fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP). FMT and FMOP are determined at a site level by reference to both historic and future projected income levels. The valuers also make reference to market evidence of transaction prices for similar properties to support the multiples adopted. There is considered to be a significant risk that an adjustment to either of these assumptions could lead to a material change in the property valuation within the next year.

The carrying value of properties to which these estimates apply is £4,036m (2021 £4,277m).

Sensitivity analysis
Changes in the fair maintainable trade, or the multiple could materially impact the valuation of the freehold and long leasehold properties, and as such they are both considered to be significant estimates in the current period.

Fair maintainable trade
As noted in the accounting judgements above, fair maintainable trade in the prior period was determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. In the current period, site level fair maintainable trade has been adjusted to reflect more recent performance, by adjusting fair maintainable turnover (FMT) and fair maintainable operating profit (FMOP) with reference to both sales and profit margin trends over periods 7 to 12 of FY22 (13 March 2022 to 27 August 2022).

7. Property, plant and equipment (continued)

Significant accounting estimates (continued)

Revaluation of freehold and long leasehold properties (continued)

In the current period, fair maintainable trade has declined by 8% as a result of the combined impact of the FMT and FMOP adjustments made. Judgement has been applied to determine the adjustments to FMT and FMOP, by assessing the extent that current trading performance is considered to be impacting on freehold licensed property values. As a result, the valuation is sensitive to the view taken on the duration of the impact of high inflation on fair maintainable trade. Should the fair maintainable trade used as the basis in property valuations decline further in line with EBITDA trends over the second half of the reporting period, fair maintainable trade may decline by a further 8%. Assuming multiples remain stable, and without applying any further judgement on the resulting property valuation, this would generate an approximate £284m reduction in the valuation.

Multiples
Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.3, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.3 change in the multiple would generate an approximate £115m movement in valuation.

Other sources of estimation uncertainty

Impairment review of short leasehold and unlicensed property and tenant's fixtures and fittings
The impairment review requires three key sources of estimation uncertainty in calculating the value in use: the estimation of forecast cash flows for each site; the selection of an appropriate discount rate and the selection of an appropriate long-term growth rate. Both the discount rate and long-term growth rate are applied consistently to each cash-generating unit.

The carrying value of assets to which these estimates apply is £134m (2021 £146m).

Sensitivity analysis
Changes in forecast cash flows, the discount rate or the long-term growth rate could impact the impairment charge recognised for short leasehold and unlicensed properties.

Forecast cash flows
The forecast pre-tax cash flows used in the value in use calculations are site level forecasts determined from the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date. Management has determined a potential downside scenario to forecast trading as part of the going concern review discussed in note 1. This would result in an increase of £2m to the impairment recognised.

Discount rate
The pre-tax discount rate applied to the forecast cash flows is derived from the Group's post-tax weighted average cost of capital (WACC). The assumptions used in the calculation of the Group's WACC are benchmarked to externally available data. A single discount rate is applied to all cash-generating units. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.1%. There is no material impact on the impairment charge to changes to the discount rate within a reasonable range.

Long-term growth rate
The long-term growth applied to the net cash flows in the value in use calculations is 2.0%. There is no reasonable scenario for the long-term growth rate under which further impairment occurs.

8. Leases

Right-of-use assets

Right-of-use assets can be analysed as follows

	2022 £m	2021 £m
At beginning of period	379	402
Additions	26	25
Impairment	(22)	(8)
Disposals	(9)	(1)
Depreciation provided during the period	(36)	(37)
Foreign currency movements	1	(2)
At end of period	339	379

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 pre-tax cash flows, for years 1 to 3. These include steady growth in revenue and cost increases, notably across energy, labour and food, equivalent to c.10% of the cost base in year 1, with an easing of inflationary pressure in years 2 and 3, as recent increases in energy prices are assumed to reduce, albeit they remain significantly ahead of historical levels. The forecast cash flows are discounted by applying a pre-tax discount rate of 9.65% (2021 9.60%) and a long-term growth rate of 2.0% from year 4 (2021 2.0%). The long-term growth rate is applied to the net cash flows and is based on up-to-date economic data points.

Impairment review of corporate level assets

In addition to the short leasehold property and right-of-use asset impairment review performed at a cash-generating unit level, the overall Group's cash-generating units have been grouped together to ensure that the corporate level assets are also considered for impairment. The assumptions are consistent with those described above for the value in use calculations performed at an individual outlet level, whilst also including unallocated central overheads. As a result of this review, no additional impairment has been recognised in the current period. A sensitivity analysis has been provided below.

Accounting judgements

Impairment of right-of-use assets

Judgement is required when assessing whether a right-of-use asset should be impaired. As impairment is considered at a cash-generating unit level, with this being an individual outlet, the carrying value used in the impairment test, is the total of the right-of-use asset value and the value held in property, plant and equipment. As such, the judgements used in the impairment review are the same as those described in note 7.

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 7. 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.

The carrying value of assets to which these estimates apply is £339m (2021 £379m).

8. Leases (continued)

Sources of estimation uncertainty (continued)

Sensitivity analysis
Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for right-of-use assets. Sensitivity analysis for short leasehold properties has been provided in note 7.

Forecast cash flows
The forecast pre-tax cash flows used in the value in use calculations are site level forecasts determined from the Group forecast for FY 2023 to FY 2025 that was in place at the balance sheet date. Management have determined a potential downside scenario to forecast trading as part of the going concern review discussed in note 1. This would result in an increase of £4m to the impairment recognised against right-of-use assets and no further impairment charge at a Group level.

Discount rate
The pre-tax discount rate applied to the forecast cash flows is derived from the Group's post-tax weighted average cost of capital (WACC). The assumptions used in the calculation of the Group's WACC are benchmarked to externally available data. A single discount rate is applied to all cash-generating units. Over the last two financial periods, the discount rate used in impairment reviews has moved by 0.1%.

Although considered unlikely, movements in the pre-tax discount rate beyond 10.35% would result in an impairment of c.£40m at Group level for each 0.1% increment.

Long-term growth rate
The long-term growth applied to the net cash flows in the value in use calculations is 2.0%. There is no reasonable scenario for the long-term growth rate under which further impairment occurs, with an almost 1% reduction required before an impairment is recognised.

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

	2022 £m	2021 £m
Amounts payable under lease liabilities		
Due within one year	68	65
Due between one and two years	42	62
Due between two and three years	47	41
Due between three and four years	43	45
Due between four and five years	38	41
Due between five and ten years	162	166
Due between ten and fifteen	113	121
Due between fifteen and twenty	73	79
Due between twenty and twenty five years	24	32
Due between twenty five and thirty years	12	12
Due after thirty years	80	80
Total undiscounted lease liabilities	702	744
Less: impact of discounting	(221)	(231)
Present value of lease liabilities	481	513
Analysed as:		
Current lease liabilities - amounts due within twelve months	53	50
Non-current lease liabilities – amounts due after twelve months	428	463
	481	513

9. Borrowings and net debt

Borrowings can be analysed as follows:

	2022 £m	2021 £m
Current		
Securitised debt[a]	113	110
Unsecured revolving credit facilities[b]	-	(1)
Overdraft[c]	17	25
Total current	130	134
Non-current		
Securitised debt[a]	1,334	1,416
Total borrowings	1,464	1,550

a. Stated net of deferred issue costs.
b. As at 24 September 2022 the amount of £nil (2021 (£1m) represents unamortised issue costs.
c. The overdraft is within a cash pooling arrangement. In the cash flow statement, cash and cash equivalents are presented net of this overdraft.

	2022 £m	2021 £m
Analysis by year of repayment		
Due within one year or on demand	130	134
Due between one and two years	182	142
Due between two and five years	412	390
Due after five years	740	884
Total borrowings	1,464	1,550

Both the secured debt and unsecured revolving credit facility are governed by various covenants. Further details of the covenants are provided in the going concern review in note 1

Net debt
Net debt can be analysed as follows:

	2022 £m	2021 £m
Cash and cash equivalents	207	252
Overdraft	(17)	(25)
Cash and cash equivalents as presented in the cash flow statement[a]	190	227
Securitised debt	(1,447)	(1,526)
Unsecured revolving credit facility	-	1
Derivatives hedging securitised debt[b]	59	28
Net debt excluding leases	(1,198)	(1,270)
Lease liabilities	(481)	(513)
Net debt including leases	(1,679)	(1,783)

a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

9. Borrowings and net debt (continued)

Movement in net debt excluding leases	2022 52 weeks £m	2021 52 weeks £m
Net (decrease)/increase in cash and cash equivalents	(39)	70
Add back cash flows in respect of other components of net debt:		
Principal repayments on securitised debt	115	107
Principal receipts on cross currency swap	(20)	(17)
Principal payments on cross currency swap	15	14
Repayment of term loan	-	100
Repayment of unsecured revolving credit facilities	-	10
Repayment of liquidity facility	-	9
Decrease in net debt arising from cash flows	71	293
Movement in capitalised debt issue costs net of accrued interest	(1)	1
Decrease in net debt excluding leases	70	294
Opening net debt excluding leases	(1,270)	(1,563)
Foreign exchange movements on cash	2	(1)
Closing net debt excluding leases	(1,198)	(1,270)

Movement in lease liabilities:

	2022 52 weeks £m	2021 52 weeks £m
Opening lease liabilities	(513)	(541)
Additions[a]	(25)	(22)
Covid-19 rent concessions[b]	-	2
Interest charged during the period	(16)	(17)
Repayment of principal	48	41
Payment of interest	16	21
Disposals	11	1
Foreign currency movements	(2)	2
Closing lease liabilities	(481)	(513)

a. Additions to lease liabilities include new leases and lease extensions or rent reviews relating to existing leases.
b. During the prior period, the Group has reached agreement with a number of landlords to waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19.

10. Finance costs and income

	2022 52 weeks £m	2021 52 weeks £m
Finance costs		
Interest on securitised debt	(94)	(98)
Interest on other borrowings	(5)	(7)
Interest on lease liabilities	(16)	(17)
Total finance costs	(115)	(122)
Finance income		
Interest receivable – cash	1	2
Net pensions finance charge (note 11)	(2)	(3)

11. Pensions

Accounting judgements

The calculation of the defined benefit liabilities requires management judgement to select an appropriate high-quality corporate bond to determine the discount rate. The most significant criteria considered for the selection of bonds include the rating of the bonds and the currency and estimated term of the retirement benefit liabilities.

In addition, management has used judgement to determine the applicable rate of inflation to apply to pension increases in calculating the defined benefit obligation. Details of this are given below.

Other sources of estimation uncertainty

The calculation of the defined benefit liabilities requires three key sources of estimation uncertainty in calculating the value in use: the selection of an appropriate discount rate; the selection of an appropriate inflation rate; and the selection of appropriate mortality assumptions.

Measurement of scheme assets and liabilities

MABEPP – buy-in policy transaction

During the period, the Trustees of the MABEPP entered a Bulk Purchase Agreement (BPA) with Legal and General Assurance Society Limited. The resulting policy is set up to provide the plan with sufficient funding to cover all known member benefits of the scheme.

The difference between the buy-in purchase price and the defined benefit obligation covered by the policy has been accounted for in other comprehensive income. The accounting treatment is based on the following considerations made by the Company:

- the employer is not relieved of primary responsibility for the obligation. The policy simply covers the benefit payments that continue to be payable by the scheme;
- the contract is effectively an investment of the scheme; and
- the contract provides the option to convert the annuity into individual policies, which would transfer the obligation to the insurer (known as a “buy-out”). Whilst this course of action may be considered in future, this is not a requirement and a separate decision will be required before any buy-out proceeds.

Following on from the transaction, the remaining scheduled contribution payments for the MABEPP are being paid into a “Blocked Account” from which the funds may be used by the Trustee or may be returned to the Company. As a result the payments are no longer recognised as a minimum funding requirement and any balance in the Blocked Account has been recognised within other receivables. The amount recognised as at 24 September 2022 is £9m.

11. Pensions (continued)

Actuarial valuation
The actuarial valuations used for IAS 19 (revised) purposes are based on the results of the latest full actuarial valuation carried out at 31 March 2019 and updated by the schemes' independent qualified actuaries to 25 September 2021. Schemes' assets are stated at market value at 25 September 2021 and the liabilities of the schemes have been assessed as at the same date using the projected unit method. IAS 19 (revised) requires that the schemes' liabilities are discounted using market yields at the end of the period on high-quality corporate bonds.

The principal financial assumptions have been updated to reflect changes in market conditions in the period and are as follows:

	Main plan 2022	Executive plan 2022	Main plan 2021	Executive plan 2021
Discount rate	5.3%	5.3%	1.9%	1.9%
Pensions increases – RPI max 5%	3.2%	3.2%	3.3%	3.3%
Inflation rate - RPI	3.5%	3.5%	3.5%	3.5%

The discount rate is based on a yield curve for AA corporate rated bonds which are consistent with the currency and estimated term of retirement benefit liabilities.

To determine the RPI assumption the gilt implied inflation yield curve has been used, reflecting the duration of the Plan's cash flows, and adjusting for an assumed inflation risk premium.

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	2022 52 weeks £m	2021 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(16)	(13)
Administrative costs (defined benefit plans)	(4)	(5)
Charge to operating profit before separately disclosed items	(20)	(18)
Past service cost	-	(3)
Charge to operating profit	(20)	(21)
Finance costs:		
Net pensions finance income on actuarial surplus	8	5
Additional pensions finance charge due to minimum funding	(10)	(8)
Net finance charge in respect of pensions	(2)	(3)
Total charge	(22)	(24)

Group statement of comprehensive income	2022 52 weeks £m	2021 52 weeks £m
Return on scheme assets and effects of changes in assumptions	(161)	19
Movement in pension liabilities recognised due to minimum funding	202	(10)
Remeasurement of pension liabilities	41	9

11. Pensions (continued)

Group balance sheet	2022 £m	2021 £m
Fair value of schemes' assets	1,699	2,808
Present value of schemes' liabilities	(1,442)	(2,438)
Actuarial surplus in the schemes	257	370
Additional liabilities recognised due to minimum funding	(321)	(513)
Total pension liabilities[a]	(64)	(143)
Associated deferred tax asset (note 5)	14	31

a. The total pension liabilities of £64m (2021 £143m) is presented as a £42m current liability (2021 £51m) and a £22m non-current liability (2021 £92m).

The movement in the actuarial surplus in the period is as follows:

	2022 £m	2021 £m
Actuarial surplus at beginning of period	370	302
Interest income	8	5
Return on scheme assets and effects of changes in assumptions	(161)	19
Additional employer contributions	44	52
Past service cost	-	(3)
Administration costs	(4)	(5)
At end of period	257	370

12. Share capital and share premium

Called up share capital	2022 Number of shares	£m	2021 Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of $8^{13/24}$p each				
At start of period	596,618,849	51	429,201,117	37
Share capital issued[a]	764,514	-	480,126	-
Open offer issued[b]	-	-	166,937,606	14
At end of period	597,383,363	51	596,618,849	51

a. During the period, the Company issued 764,514 (2021 480,126) shares at nominal value under share option schemes, for consideration of £65,302 (2021 £41,011).
b. On 12 March 2021, the Group completed a fully underwritten Open Offer share issue to existing shareholders on the basis of 7 shares for every 18 fully paid ordinary shares held. As a result, a total of 166,937,606 ordinary shares with an aggregate nominal value of £14m were issued for cash consideration of £351m. Transaction costs of £9m were incurred which were directly attributable to the issuance of the new shares, resulting in £328m being recognised in share premium and net cash proceeds of £342m.

All of the ordinary shares rank equally with respect to voting rights and rights to receive ordinary and special dividends. There are no restrictions on the rights to transfer shares.

Dividends

There were no dividends declared or paid during the current period.

12. Share capital and share premium (continued)

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £1m (2021 £328m) has been recognised on shares issued in the period.

13. Financial statements

The preliminary statement of results was approved by the Board of Directors on 6 December 2022. It does not constitute the Group's statutory consolidated financial statements for the 52 weeks ended 24 September 2022 or for the 52 weeks ended 25 September 2021. The financial information is derived from the statutory consolidated financial statements of the Group for the 52 weeks ended 24 September 2022.

Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered following the Company's Annual General Meeting.

The financial information for the 52 weeks ended 25 September 2021 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts: their report was unqualified and did not contain a statement under s498(2) or (3) of the Companies Act 2006, but did include a section highlighting a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern.

The statutory financial statements for the 52 weeks ended 24 September 2022 will be filed with the Registrar of Companies following the 2022 Annual General Meeting. The report of the auditor was unqualified and did not contain a statement under s498(2) or (3) of the Companies Act 2006, but did include a section highlighting a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Further detail is provided with the Outlook assessment and notes to these preliminary statement of results.

Alternative Performance Measures

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs).

The Group's results are presented both before and after separately disclosed items. Adjusted profit measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports an effective comparison of the Group's trading performance from one period to the next. Adjusted profit measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 3.

The Group's results are also described using other measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used by management to monitor business performance against both shorter term budgets and forecasts but also against the Group's longer-term strategic plans.

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the FY 2022 sales performance directly against the comparable period in FY 2019 of UK managed pubs, bars and restaurants that were trading in the two periods being compared, unless marketed for disposal. Comparisons have been made against FY 2019, being the last full year pre Covid-19.	Group income statement
Like-for-like sales excluding VAT benefit	Like-for-like sales excluding VAT benefit reflects like-for-like sales growth excluding the benefit of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales to 12.5% in the first half of FY 2022.	Group income statement
Adjusted earnings/(loss) per share (EPS)	Earnings/(loss) per share using profit before separately disclosed items.	Note 6
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 9
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 9 Group income statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

The sales comparisons this year have been compared directly to the sales in FY 2019 being the last full year pre Covid-19. FY 2020 and 2021 are not considered appropriate comparisons for trading performance due to the significant disruption caused to trade due to Covid-19 related restrictions and closures. A comparison to FY 2019 performance is the same approach as taken at FY 2021 and, although we note its limitations, has been used to give the reader an insight into performance against the most recent year not to be impacted by Covid-19. Moving forward into FY 2023 it will become more meaningful to use FY 2022 as a primary comparator for like-for-like sales.

Sales of all UK managed sites that were trading in the two periods being compared, are expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals.

Like-for-like sales excluding VAT benefit have been shown to illustrate the impact of the temporary reduction in the rate of VAT on food and non-alcoholic drink sales to 12.5% in the first half of FY 2022.

	Source	**2022** **52 weeks** **£m**	2019 52 weeks £m	**2022 vs. 2019** LFL %
Reported revenue	Income statement	**2,208.3**	2,236.5	**(1.3)%**
Less non like-for-like sales and income		**(247.4)**	(296.0)	**16.4%**
Like-for-like sales		**1,960.9**	1,940.5	**1.1%**
Less like-for-like sales VAT benefit		**(38.4)**	-	-
Like-for-like sales excl. VAT benefit		**1,922.5**	1,940.5	**(0.9)%**

Drink sales

	Source	**2022** **52 weeks** **£m**	2019 52 weeks £m	**2022 vs. 2019** LFL %
Reported drink revenue		**956.7**	1,024.8	**(6.6)%**
Less non like-for-like drink sales		**(91.0)**	(122.2)	**25.5%**
Drink like-for-like sales		**865.7**	902.6	**(4.1)%**

Food sales

	Source	**2022** **52 weeks** **£m**	2019 52 weeks £m	**2022 vs. 2019** LFL %
Reported food revenue		**1,166.4**	1,136.5	**2.6%**
Less non like-for-like food sales		**(130.1)**	(151.2)	**14.0%**
Food like-for-like sales		**1,036.3**	985.3	**5.2%**

Other sales

	Source	**2022** **52 weeks** **£m**	2019 52 weeks £m	**2022 vs. 2019** LFL %
Reported other revenue		**85.2**	75.2	**13.3%**
Less non like-for-like other sales		**(26.3)**	(22.6)	**(16.4)%**
Other like-for-like sales		**58.9**	52.6	**12.0%**

B. Adjusted operating profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows an understanding of the trading of the Group.

	Source	**2022 52 weeks £m**	2021 52 weeks £m	Year-on-year %
Operating profit	Income statement	**124**	81	**53.1%**
Separately disclosed items	Note 3	**116**	(52)	**323.1%**
Adjusted operating profit		**240**	29	**727.6%**
Reported revenue	Income statement	**2,208**	1,065	**107.3%**
Adjusted operating margin		**10.9%**	2.7%	**8.2ppts**

C. Adjusted earnings/(loss) per share

Earnings/(loss) per share using profit/(loss) before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows an understanding of the trading of the Group.

	Source	**2022 52 weeks £m**	2021 52 weeks £m	Year-on-year %
Profit/(loss) for the period	Income statement	**13**	(65)	**120.0%**
Add back separately disclosed items	Income statement	**94**	(12)	**883.3%**
Adjusted profit/(loss)		**107**	(77)	**239.0%**
Basic weighted average number of shares	Note 6	**595**	566	**5.1%**
Adjusted earnings/(loss) per share		**18.0p**	(13.6)p	**232.4%**

D. Net Debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. From FY 2020, leases are included in net debt following adoption of IFRS 16. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

Due to the Covid-19 closure periods in FY 2020 and 2021, we do not have a representative 52 week EBITDA measure to calculate this metric for FY 2021 as a comparative.

	Source	**2022 52 weeks £m**
Net debt	Note 9	**1,679**
EBITDA	Income statement	**374**
Add back separately disclosed items	Income statement	**(1)**
Adjusted 52 week EBITDA		**373**
Net debt: Adjusted EBITDA		**4.5**

E. Return on capital

Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement of return commences three periods following the opening of the site.

The reduced level of return is not indicative of the quality of the investment programme which has performed well over recent years, but due to the reduced trading levels due to Covid-19 restrictions that are captured in the calculation.

Return on expansionary capital

	Source	2021 FY18-21 £m	2022 FY19-21 £m	2022 FY22 £m	**2022 Total £m**
Maintenance and infrastructure		182	112	39	**151**
Remodel - refurbishment		191	128	60	**188**
Non-expansionary capital		373	240	99	**339**
Remodel expansionary		14	7	2	**9**
Conversions and acquisitions*		55	28	2	**30**
Expansionary capital for return calculation		69	35	4	**39**
Expansionary capital open < 3 periods pre year end		23	18	19	**37**
Total capital	Cash flow	465	293	122	**415**
Adjusted EBITDA	Income statement	1,279	857	373	**1,230**
Non-incremental EBITDA		(1,271)	(852)	(371)	**(1,223)**
Incremental EBITDA		8	5	2	**7**
Return on expansionary capital		12%	14%	50%	**18%**

*Conversion and acquisition capital is net of capex incurred for projects which have been open for less than 3 periods pre year end