MITCHELLS & BUTLERS PLC
LEI no: 213800JHYNDNB1NS2W10

25 November 2021

FULL YEAR RESULTS

(For the 52 weeks ended 25 September 2021)

Highlights
- A return to profitability and cash generation in the period since restrictions were lifted
- FY 2021 like-for-like sales[a] declined by 9.6% impacted by Covid-19 related restrictions
- Like-for-like sales[a] growth of 2.7% in last eight weeks since the end of the financial year with total sales in growth of 0.5%
- Strengthened balance sheet through successful £351m equity raise and refinanced debt arrangements

Reported results
- Total revenue of £1,065m (FY 2020 £1,475m)
- Operating profit of £81m (FY 2020 £8m)
- Loss before tax of £(42)m (FY 2020 £(123)m)
- Basic loss per share of (11.5)p (FY 2020 (23.6)p)

Trading results
- Adjusted operating profit[a] £29m (FY 2020 £99m)
- Second half sales of £846m (H2 FY 2020 £436m) demonstrating strong recovery on re-opening, full year revenue of £1,065m (FY 2020 £1,475m)
- Adjusted second half operating profit[a] £153m (H2 FY 2020 £(9)m)

Balance sheet and cash flow
- Unsecured committed financing facilities of £150m to February 2024
- Extended covenant waivers and amendments in place for the securitisation until Q4 2022
- Cash inflow after bond amortisation of £70m (FY 2020 inflow £24m), including gross equity proceeds of £351m
- Cash balances on hand of £227m at year end with liquidity facility fully repaid
- Net debt[a] reduced to £1,270m (FY 2020 £1,563m), excluding £513m of IFRS 16 lease liabilities (FY 2020 £541m)

Phil Urban, Chief Executive, commented:

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

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

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.
All sales measures are compared to FY 2019, being the last full year pre-Covid-19.

There will be a presentation held today at 8:30am accessible by phone on 0203 936 2999, access code: 456066 and www.incommuk.com/customers/online access code: 456066. The slides will also be available on the website at www.mbplc.com. The replay will be available until 9 December 2021 on 0203 936 3001, access code: 855923.

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

For further information, please contact:

Tim Jones – Chief Financial Officer	+44(0)121 498 6112
Amy De Marsac – Investor Relations	+44(0) 7712 538660
James Murgatroyd (Finsbury)	+44(0)20 7251 3801

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

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

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

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

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

OUR STRATEGIC PRIORITIES

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

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

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

THE EXTERNAL ENVIRONMENT

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

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

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

Brexit remains an important event for the market and has created risks for the sector, principally around the supply and cost of products and workforce shortages. Risks in relation to procurement have been well managed by buying ahead to mitigate the potential lack of availability of products, reviewing and updating key contracts to maintain commerciality of agreements, identifying contingency markets and maintaining strong commercial relationships with key suppliers. Our apprenticeship programme has been a key asset in managing the risk around workforce shortage and remains a focus for the business going forward.

FINANCIAL REVIEW

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

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

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

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

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

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

Revenue

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

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

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

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

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

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

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

Separately disclosed items

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

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

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

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

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

Operating profit and margins[a]

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

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

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

Interest

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

A number of the Group's financial instruments had LIBOR as their reference rate. The Group has now completed the necessary amendments to transition its financing arrangements in advance of the discontinuation of LIBOR as a floating reference rate, replacing LIBOR with a Sterling Overnight Index Average (SONIA) based rate in respect of Sterling, and a Secured Overnight Financing Rate (SOFR) based rate in respect of US Dollars, effective from 1 January 2022 and 1 July 2023 respectively.

The amendments in respect of the securitised bonds were agreed by the Bondholders through a formal consent solicitation process and bilateral agreements were reached with securitised swap and liquidity facility providers (using amended reference rates consistent with those agreed under the bonds).

The unsecured committed facility was originally arranged on a SONIA basis in February 2021, so did not require amendment.

Earnings per share

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

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

Cash flow

	FY 2021 £m	FY 2020 £m
EBITDA before movements in the valuation of the property portfolio	182	255
Non-cash share-based payment and pension costs and other	13	5
Operating cash flow before adjusted items, movements in working capital and additional pension contributions	**195**	**260**
Working capital movement	7	20
Pension deficit contributions	(52)	(25)
Cash flow from operations	**150**	**255**
Capital expenditure	(33)	(108)
Net finance lease principal payments	(41)	(20)
Interest on lease liabilities	(21)	(8)
Net interest paid	(104)	(108)
Tax	1	(11)
Issue and purchase of shares	341	(1)
Other	0	1
(Repayment)/drawings under liquidity facility	(9)	9
(Repayment)/drawdown of term loan	(100)	100
(Repayment)/drawdown of revolving credit facilities	(10)	10
Net cash flow before bond amortisation	**174**	**119**
Bond amortisation	(104)	(95)
Net cash flow	**70**	**24**

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

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

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

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

Capital expenditure

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

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

Property

In line with our property valuation policy a red book valuation of the freehold and long leasehold estate has been completed in conjunction with the independent property valuer, CBRE. In addition, the Group has undertaken an impairment review on short leasehold and unlicensed properties and fixtures and fittings. The overall property portfolio valuation has increased by £196m (FY 2020 decrease of £208m) reflecting £46m separately disclosed in the income statement and a £150m increase in the revaluation reserve.

Pensions

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

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

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

Net debt[a] and facilities

Following the adoption of IFRS16 in the prior financial year, leases are now included in net debt. Net debt[a] at the period end was £1,783m, comprised of £1,270m non-lease liabilities and lease liabilities of £513m (FY 2020 £2,104m comprised of £1,563m non-lease liabilities and lease liabilities of £541m).

On 14 February, the Group reached agreement with its three relationship banks for a new £150 million three-year unsecured facility. In addition, extended waivers and then amendments until January 2023 were agreed within the Group securitisation to provide flexibility and stability to manage the secured financing structure. Without these extensions certain breaches would have resulted due to the impact of Covid-19 and the measures taken to stem the spread of the virus. Both the unsecured and secured financing agreements were conditional on completion of the Open Offer. In addition, on completion of the Open Offer the full £100m of the CLBILS term loans was repaid. The details of these arrangements and an analysis of net debt can be found in note 10.

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

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

Significant Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions in the application of accounting polies. Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Judgements and estimates for the period relate to;

- going concern assessment (note 1)
- separately disclosed items (note 3)
- property plant and equipment (note 8)
- leases (note 9)
- pensions (note 11)

Going Concern

After considering the forecasts, sensitivities and mitigating actions available to management and having regard to the risks and uncertainties to which the Group is exposed, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and operate within its borrowing facilities and covenants for a period of at least 12 months from the date of signing the financial statements. However, given the prevailing high level of unpredictability and uncertainty concerning the future incidence of the pandemic the Directors are unable to conclude that the prospect of either a further lockdown or of material restrictions being imposed on the Group's ability to trade is remote. Accordingly, the financial statements continue to be prepared on the going concern basis but with material uncertainty arising from the possible further impact of Covid-19 on the economy and the hospitality sector.

Full details are included in Note 1.

Director's responsibility statement

The 2021 Annual Report and Accounts which will be issued in December 2021, 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 24 November 2021, 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 24 November 2021 and is signed on its behalf by:

Tim Jones
Chief Financial Officer
24 November 2021

Definitions

a – The Directors use a number of alternative performance measures (APMs) that are considered critical to aid the understanding of the Group's performance. Key measures are explained later in this Report.

b – Mandated closure is defined as more than 90% of the estate being closed.

Group income statement

For the 52 weeks ended 25 September 2021

		2021 52 weeks			2020 52 weeks		
	Notes	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m	Before separately disclosed items £m	Separately disclosed items[a] £m	Total £m
Revenue	2	1,065	-	1,065	1,475	-	1,475
Operating costs before depreciation, amortisation and movements in the valuation of the property portfolio	3	(898)	13	(885)	(1,221)	2	(1,219)
Share in associates results		1	-	1	(1)	-	(1)
Net profit arising on property disposals		-	1	1	-	-	-
EBITDA[b] before movements in the valuation of the property portfolio		168	14	182	253	2	255
Depreciation, amortisation and movements in the valuation of the property portfolio	3	(139)	38	(101)	(154)	(93)	(247)
Operating profit/(loss)		29	52	81	99	(91)	8
Finance costs	5	(122)	-	(122)	(128)	-	(128)
Finance income	5	2	-	2	1	-	1
Net pensions finance charge	5,11	(3)	-	(3)	(4)	-	(4)
(Loss)/profit before tax		(94)	52	(42)	(32)	(91)	(123)
Tax credit/(charge)	6	17	(40)	(23)	5	6	11
(Loss)/profit for the period		(77)	12	(65)	(27)	(85)	(112)
Loss per ordinary share (restated)[c]							
Basic	7	(13.6)p		(11.5)p	(5.7)p		(23.6)p
Diluted	7	(13.6)p		(11.5)p	(5.7)p		(23.6)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.
c. Loss per share for the comparative periods have been restated to reflect the bonus element of the Open Offer share issue completed on 12 March 2021. See note 7.

All results relate to continuing operations.

Group statement of comprehensive income/(expense)

For the 52 weeks ended 25 September 2021

	Notes	2021 52 weeks £m	2020 52 weeks £m
Loss for the period		(65)	(112)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain/(loss) on revaluation of the property portfolio	8	150	(148)
Remeasurement of pension liability	11	9	3
Tax relating to items not reclassified	6	(97)	1
		62	(144)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(1)	-
Cash flow hedges:			
- Gains/(losses) arising during the period		32	(43)
- Reclassification adjustments for items included in profit or loss		56	48
Tax relating to items that may be reclassified	6	(4)	5
		83	10
Other comprehensive income/(expense) after tax		145	(134)
Total comprehensive income/(expense) for the period		80	(246)

Group balance sheet

25 September 2021	Notes	2021 £m	2020 £m
Assets			
Goodwill and other intangible assets		13	14
Property, plant and equipment	8	4,442	4,305
Right-of-use assets	9	379	402
Interests in associates		5	4
Finance lease receivables		14	15
Deferred tax asset		4	85
Derivative financial instruments		29	45
Total non-current assets		4,886	4,870
Inventories		19	22
Trade and other receivables		48	41
Current tax asset		3	1
Finance lease receivables		1	2
Cash and cash equivalents	10	252	173
Total current assets		323	239
Total assets		5,209	5,109
Liabilities			
Pension liabilities	11	(51)	(51)
Trade and other payables		(333)	(314)
Current tax liabilities		(2)	-
Borrowings	10	(134)	(238)
Lease liabilities	9	(50)	(58)
Derivative financial instruments		(37)	(40)
Total current liabilities		(607)	(701)
Pension liabilities	11	(92)	(142)
Borrowings	10	(1,416)	(1,542)
Lease liabilities	9	(463)	(483)
Derivative financial instruments		(172)	(257)
Deferred tax liabilities		(346)	(302)
Provisions		(9)	(5)
Total non-current liabilities		(2,498)	(2,731)
Total liabilities		(3,105)	(3,432)
Net assets		2,104	1,677
Equity			
Called up share capital	12	51	37
Share premium account	12	356	28
Capital redemption reserve		3	3
Revaluation reserve		1,150	1,117
Own shares held		(3)	(3)
Hedging reserve		(156)	(240)
Translation reserve		13	14
Retained earnings		690	721
Total equity		2,104	1,677

Group statement of changes in equity

For the 52 weeks ended 25 September 2021

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Revaluation reserve £m	Own shares held £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Total equity £m
At 29 September 2019	37	26	3	1,267	(4)	(250)	14	830	1,923
Loss for the period	-	-	-	-	-	-	-	(112)	(112)
Other comprehensive income/(expense)	-	-	-	(150)	-	10	-	6	(134)
Total comprehensive income/(expense)	-	-	-	(150)	-	10	-	(106)	(246)
Share capital issued	-	2	-	-	-	-	-	-	2
Purchase of own shares	-	-	-	-	(2)	-	-	-	(2)
Release of own shares	-	-	-	-	3	-	-	(3)	-
Credit in respect of share-based payments	-	-	-	-	-	-	-	2	2
Tax charge on share-based payments	-	-	-	-	-	-	-	(2)	(2)
At 26 September 2020	37	28	3	1,117	(3)	(240)	14	721	1,677
Impact of Covid-19 rent concessions[a]	-	-	-	-	-	-	-	1	1
At 26 September 2020 (revised)	37	28	3	1,117	(3)	(240)	14	722	1,678
Loss for the period	-	-	-	-	-	-	-	(65)	(65)
Other comprehensive income/(expense)	-	-	-	33	-	84	(1)	29	145
Total comprehensive income/(expense)	-	-	-	33	-	84	(1)	(36)	80
Share capital issued[b]	14	328	-	-	-	-	-	-	342
Purchase of own shares	-	-	-	-	(1)	-	-	-	(1)
Release of own shares	-	-	-	-	1	-	-	(1)	-
Credit in respect of share-based payments	-	-	-	-	-	-	-	3	3
Tax credit on share-based payments	-	-	-	-	-	-	-	2	2
At 25 September 2021	51	356	3	1,150	(3)	(156)	13	690	2,104

a. Retained earnings at 26 September 2020 have been increased for the impact of Covid-19 related rent concessions agreed in the current period but relating to the 52 weeks ended 26 September 2020. See notes 1 and 9 for further details.

b. Details of the share capital and premium issued as part of the Open Offer share issue on 12 March 2021 are provided in note 12.

Group cash flow statement

For the 52 weeks ended 25 September 2021

	Notes	2021 52 weeks £m	2020 52 weeks £m
Cash flow from operations			
Operating profit		81	8
Add back/(deduct):			
Movement in the valuation of the property portfolio		(38)	93
Net profit arising on property disposals		(1)	-
Depreciation of property, plant and equipment		98	110
Amortisation of intangibles		4	3
Depreciation of right-of-use assets		37	41
Loss on disposal of fixtures, fittings and equipment		2	-
Cost charged in respect of share-based payments		3	2
Past service cost in relation to the defined benefit pension obligation		3	-
Administrative pension costs		5	2
Share of associates results		(1)	1
Impairment of finance lease receivables		2	-
Operating cash flow before movements in working capital and additional pension contributions		195	260
Decrease in inventories		3	4
(Increase)/decrease in trade and other receivables		(7)	9
Increase in trade and other payables		10	6
Increase in provisions		1	1
Additional pension contributions		(52)	(25)
Cash flow from operations		150	255
Interest payments[a]		(65)	(73)
Interest payments on interest rate swaps[a]		(40)	(38)
Interest receipts on cross currency swap[a]		1	3
Interest payments on cross currency swap[a]		(1)	(1)
Other interest paid - lease liabilities		(21)	(8)
Borrowing facility fees paid		(1)	(1)
Interest received		1	1
Tax received/(paid)		1	(11)
Net cash from operating activities		25	127
Investing activities			
Purchases of property, plant and equipment		(29)	(104)
Purchases of intangible assets		(4)	(4)
Proceeds from sale of property, plant and equipment		1	2
Finance lease principal repayments received		-	2
Net cash used in investing activities		(32)	(104)
Financing activities			
Issue of ordinary share capital	12	342	2
Purchase of own shares		(1)	(3)
Repayment of principal in respect of securitised debt[b]		(107)	(99)
Principal receipts on currency swap[b]		17	18
Principal payments on currency swap[b]		(14)	(14)
(Repayment)/drawings under liquidity facility		(9)	9
(Repayment)/drawdown of term loan		(100)	100
(Repayment)/drawdown of unsecured revolving credit facilities		(10)	10
Cash payments for the principal portion of lease liabilities		(41)	(22)
Net cash from financing activities		77	1
Net increase in cash and cash equivalents		70	24
Cash and cash equivalents at the beginning of the period	10	158	133
Foreign exchange movements on cash		(1)	1
Cash and cash equivalents at the end of the period	10	227	158

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

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

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 25 September 2021. The comparative period is for the 52 week period ended 26 September 2020. The respective balance sheets have been drawn up as at 25 September 2021 and 26 September 2020.

The preliminary 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.

Liquidity

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

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

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

Revised facilities and covenants

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

- an extension of the waiver of, and amendment to, the 30 day suspension of business provision, where such provision was waived because the suspension arose due to the enforced closure during the Covid-19 pandemic;
- a waiver of the two quarter look-back debt service coverage ratio test up until April 2022 and a waiver of the four quarter look-back debt service coverage ratio test up until July 2022. The covenants are then initially tested on reduced levels, before full reinstatement of both tests from January 2023;
- a waiver of the requirement to appoint a financial adviser which would otherwise have arisen for any periods where the debt service coverage ratio falls to below the required level up until January 2023;
- a reduction in the minimum amount required to be spent on maintenance during FY 2021 arising from the business having been temporarily suspended; and
- a waiver to facilitate drawings of up to £110m in total under the Liquidity Facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings are repaid in full by 15 December 2021.

1. **Preparation of preliminary consolidated financial statements (continued)**

Going concern (continued)

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

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

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

In reaching this assessment, the Directors have reviewed what they consider to be a plausible base case forecast scenario. Sales are assumed to largely recover to FY19 levels, supported in H1 by the 12.5% VAT rates on food and non-alcoholic drink for the 6 months from 1 October 2021. Stripping out the VAT benefit, this assumes sales are 5% below pre-Covid levels through H1 before moving back in line with pre-Covid sales in H2. In future years sales through FY 2023 are assumed to be 4.5% up on pre-Covid levels, with a further 3% increase in FY 2024.

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

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

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

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

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

1. Preparation of preliminary consolidated financial statements (continued)

Going concern (continued)

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

Going concern statement
Notwithstanding the material uncertainty highlighted above, after due consideration the Directors have a reasonable expectation that the Company and the Group have sufficient resources to continue in operational existence for the period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements continue to be prepared on the going concern basis and do not include any adjustments that would result if the going concern basis were not appropriate.

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 = €1.15 (2020 £1 = €1.09), where this is a reasonable approximation to the rate at the dates of the transactions. Euro and US dollar denominated assets and liabilities have been translated at the relevant rate of exchange at the balance sheet date of £1 = €1.17 (2020 £1 = €1.10) and £1 = $1.37 (2020 £1 = $1.27) respectively.

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

Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions (issued on 28 May 2020) and Covid-19 Related Rent Concessions beyond 30 June 2021 (effective 1 April 2021)
In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of Covid-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a Covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the Covid-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of Covid-19 and only if all of the following conditions are met.
(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
(b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
(c) There is no substantive change to other terms and conditions of the lease.

In March 2021, the IASB extended the application date to allow lessee's to apply the practical expedient for any reduction in rent payments originally due on or before 30 June 2022. This change is effective for periods beginning on or after 1 April 2021, but can be adopted early.

The Group has received £2m of Covid-19 related rent concessions. The resulting impact of this change on opening retained earnings and the current period income statement is disclosed in note 9.

1. Preparation of preliminary consolidated financial statements (continued)

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

Estimates and judgements are periodically evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. In the current and prior periods, there has been significant judgement around the going concern assessment, including estimation uncertainty in the forecasts used for this assessment. Full details are provided in the going concern review above.

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

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

Critical judgements are described in each section listed below:

- Note 3 Separately disclosed items
- Note 8 Property, plant and equipment
- Note 9 Leases
- Note 11 Pensions

Key sources of estimation uncertainty are described in:

- Note 8 Property, plant and equipment
- Note 9 Leases

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.

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

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

3. Separately disclosed items

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit and earnings per share information that excludes separately disclosed items and the impact of any associated tax. Adjusted profitability measures are presented excluding separately disclosed items as we believe this provides both management, investors and other stakeholders with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans.

Judgement is used to determine those items which should be separately disclosed. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

Critical accounting judgements
Judgement is used to determine those items which should be separately disclosed to allow a better understanding of the adjusted trading performance of the Group. This judgement includes assessment of whether an item is of sufficient size or of a nature that is not consistent with normal trading activities.

The items identified in the current period are as follows:

	Notes	2021 52 weeks £m	2020 52 weeks £m
Separately disclosed items			
Past service cost in relation to the defined benefit obligation	a	(3)	-
Costs directly associated with Covid-19 and the enforced closure of pubs	b	(4)	(11)
Gaming machine settlement	c	20	13
Total separately disclosed items recognised within operating costs		13	2
Net profit arising on property disposals		1	-
Movement in the valuation of the property portfolio:			
- Impairment reversal/(impairment charge) arising from the revaluation of freehold and long leasehold properties	d	51	(43)
- Impairment of freehold and long leasehold tenant's fixtures and fittings	e	(3)	(10)
- Impairment of short leasehold and unlicensed properties	f	(2)	(7)
- Impairment of right-of-use assets	g	(8)	(33)
Net movement in the valuation of the property portfolio		38	(93)
Total separately disclosed items before tax		52	(91)
Tax credit relating to above items		(11)	16
Tax charge relating to change in tax rate	h	(29)	(10)
		(40)	6
Total separately disclosed items after tax		12	(85)

a. On 20 November 2020, the High Court ruled that pension schemes will need to revisit individual transfer payments since 17 May 1990 to check if any additional value is due as a result of guaranteed minimum pensions (GMPs) equalisition. This latest judgement follows on from the ruling regarding GMPs on 26 October 2018 and requires that schemes make a top-up payment to any member who exercised their statutory right to transfer benefits to an alternative scheme. The top-up payment should be the shortfall between the original transfer payments and what would have been paid if benefits had been equalised at the time, with interest in line with bank base rate plus 1% each year. The past service cost recognised in the current period is an estimate of the impact to the Group's schemes as a result of this ruling. See note 11.

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.

3. Separately disclosed items (continued)

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

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

d. The impairment arising from the Group's revaluation of its freehold and long leasehold pub estate comprises an impairment charge, where the carrying values of the properties exceed their recoverable amount, net of a revaluation surplus that reverses past impairments. See note 8 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 8 for further details.

f. Impairment of short leasehold and unlicensed properties where their carrying values exceed their recoverable amounts. See note 8 for further details.

g. Impairment of right-of-use assets where their carrying values exceed their recoverable amounts. See note 9 for further details.

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

4. Government grants

Accounting policy

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related operating costs for which the grants are intended to compensate.

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

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

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

4. Government grants (continued)

Local Authority grants

Following the outbreak of the Covid-19 global pandemic in early 2020 and the subsequent enforced closure of the business, the Mitchells & Butlers Group (MAB), under the Temporary Framework for State Aid for Covid-19 Responses (TF), has received a number of different areas of support from both local and central Government in the UK and also Germany. During the current period, the Group has applied for various Local Authority grants as a result of both local and national restrictions that required pubs and restaurants to close. Under these schemes, businesses in the retail, hospitality and leisure sectors in England and Germany are entitled to one-off cash grants for each business impacted. The maximum amount the Group is able to claim is £10.9m as a result of the State Aid cap.

German Government grants

During the period, the Group has been entitled to receive government assistance in Germany as a result of Covid-19 in relation to the pubs and restaurants that are operated there. Assistance has been received in relation to staff wages and salaries under Kurzarbeit. In addition the German Government provided grants to assist with loss of profits during enforced closure periods under the November Support and December Support schemes, as well as the Fixed Cost Bridging Aid scheme. These grants all fall outside of the Temporary Framework and are therefore excluded from the State Aid maximum rules.

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

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

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

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

5. Finance costs and income

	2021 52 weeks £m	2020 52 weeks £m
Finance costs		
Interest on securitised debt	(98)	(105)
Interest on other borrowings	(7)	(6)
Interest on lease liabilities	(17)	(17)
Total finance costs	(122)	(128)
Finance income		
Interest receivable – cash	2	1
Net pensions finance charge (note 11)	(3)	(4)

6. Taxation

Taxation - Group income statement

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

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

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

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

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

6. Taxation (continued)

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

Taxation - other comprehensive income

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

	2021 52 weeks £m	2020 52 weeks £m
Tax relating to items recognised directly in equity		
Deferred tax:		
- Tax credit/(charge) related to share-based payments	2	(2)

Factors which may affect future tax charges

The Finance Act 2016 reduced the main rate of corporation tax from 19% to 17% from 1 April 2020. The Finance Act 2020 maintained the main rate of corporation tax rate at 19% from 1 April 2020, overriding the Finance Act 2016. The effect of this change has been reflected in the closing deferred tax balances at 26 September 2020.

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

7. (Loss)/earnings per share

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

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

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

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

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

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

Restatement
Basic and diluted (loss)/earnings per share figures for the comparative periods have been restated for the bonus factor of 1.109 to reflect the bonus element of the Open Offer share issue (see note 12), in accordance with IAS 33 Earnings per Share, as shown below.

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

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

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

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

7. (Loss)/earnings per share

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

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

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

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

At 25 September 2021, 800,570 (2020 1,894,111) other share options were outstanding that could potentially dilute basic EPS in the future but were not included in the calculation of diluted EPS as they are anti-dilutive for the periods presented.

8. Property, plant and equipment

Accounting policies

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

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

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

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:

	2021 £m	2020 £m
At beginning of period	4,305	4,528
Additions	43	97
Revaluation and impairment	196	(208)
Disposals	(3)	(2)
Depreciation provided during the period	(98)	(110)
Exchange differences	(1)	-
At end of period	4,442	4,305

Revaluation of freehold and long leasehold properties
The freehold and long leasehold properties have been valued at fair value, as at 25 September 2021, using information provided by CBRE, independent chartered surveyors. The valuation was carried out in accordance with the RICS Valuation – Global Standards 2020 which incorporate the International Valuation Standards and the RICS Valuation – Professional Standards UK (the 'Red Book') assuming each asset is sold as a fully operational trading entity. The fair value has been determined having regard to factors such as current and future projected income levels. As part of this, CBRE have taken into account the expected rebuild in trade following reopening as a result of Covid-19, as well as location, quality of the pub restaurant and recent market transactions in the sector. In the prior period, CBRE reduced the property multiples for the expected impact of Covid-19 prevailing at the balance sheet date. In the current period CBRE have selectively increased the property multiples to reflect the rebuild in trade following reopening in May 2021. However, the average multiple aross the Mitchells & Butlers estate remains below the average applied pre Covid-19, incorporating an element of risk as trade rebuilds into FY 2022.

8. Property, plant and equipment (continued)

Impairment review

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

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

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

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

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

Critical accounting judgements

Revaluation of freehold and long leasehold properties

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

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

At the prior period reporting date of 26 September 2020, judgement was applied to determine the most appropriate measure of site level FMT. Given numerous trading restrictions impacting all sites as well as a significant period of mandated closure, FMT was determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance.

8. Property, plant and equipment (continued)

Critical accounting judgements (continued)

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

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

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

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

Management apply judgement when allocating overhead costs to site cash flows, with an overhead allocation being made only for those costs that can be directly attributable to a site on a consistent basis. Site level forecasts, including the allocation of directly attributable overhead costs, have been used that formed the basis of the overall Group forecast for FY 2022 that was in place at the balance sheet date.

Key sources of estimation uncertainty

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

The carrying value of properties to which these estimates apply is £4,277m (2020 £4,128m).

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

FMT
As noted in the critical accounting judgements above, FMT has been determined by reference to the trading performance up to March 2020, the point of the first full lockdown following the emergence of Covid-19, in conjunction with the previous two years of trading performance. The average movement in FMT of revalued properties over the three financial periods, prior to March 2020, is 2.5%, which is considered to be within the range of reasonably possible outcomes for future movements in FMT. It is estimated that, given the multiplier effect, a 2.5% change in the FMT of the freehold or long leasehold properties would generate an approximate £95m movement in their valuation.

Multiples
Valuation multiples are determined at an individual brand level. Over the last three financial periods, the weighted average brand multiple has moved by an average of 0.4, which is considered to be within the range of reasonably possible outcomes for future movements in multiples. It is estimated that a 0.4 change in the multiple would generate an approximate £173m movement in valuation.

8. Property, plant and equipment (continued)

Key sources of estimation uncertainty (continued)

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 £146m (2020 £164m).

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

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

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

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

9. Leases

Right-of-use assets

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

	2021 £m	2020 £m
At beginning of period	402	-
Transition to IFRS 16	-	466
Additions	25	10
Impairment	(8)	(33)
Disposals	(1)	(1)
Depreciation provided during the period	(37)	(41)
Foreign currency movements	(2)	1
At end of period	379	402

Impairment review of right-of-use assets
Right-of-use assets are reviewed for impairment by comparing site recoverable amount to their carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current net book value.

Recoverable amount is determined as being the higher of fair value or value in use. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 9.6% (2020 9.9%) and a long-term growth rate of 2.0% (2020 0.0%). The long-term growth rate has been increased to 2.0% in the current period based on up to date economic data points and for consistency with the overall Group profit forecast.

9. Leases (continued)

Critical accounting judgements

Lease liabilities

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

Impairment of right-of-use assets

Judgement is also required when assessing whether a right-of-use asset should be impaired. As impairment is considered at a cash generating unit level, with this being an individual outlet, the carrying value used in the impairment test, is the total of the right-of-use asset value and the value held in property, plant and equipment. As such, the judgements used in the impairment review are the same as those described in note 8.

Key sources of estimation uncertainty

As noted above, the impairment review of right-of-use assets is performed in combination with the impairment review of property, plant and equipment. The three key sources of estimation uncertainty are described in note 8. 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 £379m.

Sensitivity analysis

Changes in forecast cash flows, the discount rate or the long-term growth rate could materially impact the impairment charge recognised for right-of-use assets.

Forecast cash flows

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

Discount rate

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

Long-term growth rate

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

Lease liabilities

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

	2021 £m	2020 £m
Amounts payable under lease liabilities		
Due within one year	65	75
Due between one and two years	62	54
Due between two and three years	41	59
Due between three and four years	45	38
Due between four and five years	41	43
Due after five years	490	515
Total undiscounted lease liabilities	744	784
Less: impact of discounting	(231)	(243)
Present value of lease liabilities	513	541

Analysed as:		
Current lease liabilities - amounts due within twelve months	50	58
Non-current lease liabilities – amounts due after twelve months	463	483
	513	541

9. Leases (continued)

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

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

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

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

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

10. Borrowings and net debt

Borrowings

Borrowings can be analysed as follows:

	2021 £m	2020 £m
Current		
Securitised debt[a]	110	104
Term loan[b]	-	100
Liquidity facility	-	9
Unsecured revolving credit facilities[c]	(1)	10
Overdraft[d]	25	15
Total current	134	238
Non-current		
Securitised debt[a,b]	1,416	1,542
Total borrowings	1,550	1,780

a. Stated net of deferred issue costs.
b. The term loan held in the prior period was a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. Further details are provided below.
c. As at 25 September 2021 the amount of £(1)m represents unamortised issue costs.
d. The overdraft is within a cash pooling arrangement. In the cash flow statement, cash and cash equivalents are presented net of this overdraft.

Liquidity facility

Under the terms of the securitisation, the Group holds a liquidity facility of £295m provided by two counterparties.

During the prior period, as a result of the Covid-19 pandemic, the Group obtained a waiver to facilitate drawings of up to £100m in total under the Liquidity facility providing the Group with additional facilities in order to meet payments of principal and interest, provided such drawings were repaid in full by 15 March 2021. This waiver has been extended during the current period, such that full repayment was not required by 15 March 2021, with all drawings now required to be repaid in full by 15 December 2021. The amount drawn at 25 September 2021 is £nil (2020 £9m). Further details of the covenant waivers and amendments obtained are provided within the going concern review in note 1.

Unsecured revolving credit facilities

At the start of the period the Group held unsecured committed revolving credit facilities totalling £150m (comprising three £50m bilateral facilities) and an uncommitted overdraft facility of £5m, available for general corporate purposes. The unsecured committed revolving credit facilities were fully drawn at £150m during the period and subsequently repaid and cancelled on 12 March 2021. These facilities were replaced with a single unsecured committed revolving credit facility of £150m. The new committed facility expires on 14 February 2024. The amount drawn at 25 September 2021 is £nil (2020 £10m).

10. Borrowings and net debt (continued)

Borrowings (continued)

Term loan backed by the Coronavirus Large Business Interruption Loan Scheme
In June 2020, the Group entered into two new facilities of £50m each backed by the UK Government Coronavirus Large Business Interruption Loan Scheme. During the period these facilities were repaid and cancelled. The amount drawn at 25 September 2021 is £nil (2020 £100m).

Net debt
Net debt can be analysed as follows:

	2021 £m	2020 £m
Cash and cash equivalents	252	173
Overdraft	(25)	(15)
Cash and cash equivalents as presented in the cash flow statement[a]	227	158
Securitised debt	(1,526)	(1,646)
Term loan[b]	-	(100)
Unsecured revolving credit facility	1	(10)
Liquidity facility	-	(9)
Derivatives hedging securitised debt[c]	28	44
Net debt excluding leases	(1,270)	(1,563)
Lease liabilities	(513)	(541)
Net debt including leases	(1,783)	(2,104)

a. Cash and cash equivalents, in the cash flow statement, are presented net of an overdraft within a cash pooling arrangement, to which the Group has a legal right of offset.
b. The term loan drawing in the prior period is a drawing under a facility that was backed by the Coronavirus Large Business Interruption Loan Scheme. This drawing has been fully repaid in the current period.
c. Represents the element of the fair value of currency swaps hedging the balance sheet value of the Group's US$ denominated A3N loan notes. This amount is disclosed separately to remove the impact of exchange movements which are included in the securitised debt amount.

Movement in net debt excluding leases	2021 52 weeks £m	2020 52 weeks £m
Net increase in cash and cash equivalents	70	24
Add back cash flows in respect of other components of net debt:		
Principal repayments on securitised debt	107	99
Principal receipts on cross currency swap	(17)	(18)
Principal payments on cross currency swap	14	14
Repayment/(drawdown) of term loan	100	(100)
Repayment/(drawdown) of unsecured revolving credit facilities	10	(10)
Repayment/(drawdown) of liquidity facility	9	(9)
Decrease in net debt arising from cash flows	293	-
Movement in capitalised debt issue costs net of accrued interest	1	-
Decrease in net debt excluding leases	294	-
Opening net debt excluding leases	(1,563)	(1,564)
Foreign exchange movements on cash	(1)	1
Closing net debt excluding leases	(1,270)	(1,563)

10. Borrowings and net debt (continued)

Net debt (continued)

Movement in lease liabilities

	2021 52 weeks £m	2020 52 weeks £m
Opening lease liabilities	(541)	-
Transition to IFRS 16	-	(545)
Additions	(22)	(10)
Covid-19 rent concessions[a]	2	-
Interest charged during the period	(17)	(17)
Repayment of principal	41	22
Payment of interest	21	8
Disposals	1	2
Foreign currency movements	2	(1)
Closing lease liabilities	(513)	(541)

a. During the period, the Group has reached agreement with a number of landlords to waive a portion of rent that was due during periods of enforced pub closure as a result of Covid-19. See note 9.

11. Pensions

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

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

Measurement of scheme assets and liabilities

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

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

11. Pensions (continued)

Actuarial valuation (continued)

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI. As a result the additional liability resulting from any backdated pension increases at RPI (capped at 5%) and the subsequent increase in future liability that arises from this higher base position has been included in the actuarial liability at 25 September 2021. There is no impact on the total pension liability as, under IFRIC 14, additional liabilities are recognised such that the total balance sheet position reflects the schedule of contributions agreed by the Company, extending to 2023.

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

	Main plan 2021	Executive plan 2021	Main plan 2020	Executive plan 2020
Discount rate[a]	1.9%	1.9%	1.6%	1.6%
Pensions increases – RPI max 5%	3.3%	3.3%	2.8%	2.8%
Inflation rate - RPI	3.5%	3.5%	2.9%	2.9%

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

Amounts recognised in respect of defined benefit schemes

The following amounts relating to the Group's defined benefit and defined contribution arrangements have been recognised in the Group income statement and Group statement of comprehensive income.

Group income statement	2021 52 weeks £m	2020 52 weeks £m
Operating profit:		
Employer contributions (defined contribution plans)	(13)	(13)
Administrative costs (defined benefit plans)	(5)	(2)
Charge to operating profit before separately disclosed items	(18)	(15)
Past service cost (note 3)	(3)	-
Charge to operating profit	(21)	(15)
Finance costs:		
Net pensions finance income on actuarial surplus	5	5
Additional pensions finance charge due to minimum funding	(8)	(9)
Net finance charge in respect of pensions	(3)	(4)
Total charge	(24)	(19)

Group statement of comprehensive income	2021 52 weeks £m	2020 52 weeks £m
Return on scheme assets and effects of changes in assumptions	19	(22)
Movement in pension liabilities recognised due to minimum funding	(10)	25
Remeasurement of pension liabilities	9	3

11. Pensions (continued)

Group balance sheet	2021 £m	2020 £m
Fair value of schemes' assets	2,808	2,736
Present value of schemes' liabilities	(2,438)	(2,434)
Actuarial surplus in the schemes	370	302
Additional liabilities recognised due to minimum funding	(513)	(495)
Total pension liabilities[a]	(143)	(193)

a. The total pension liabilities of £143m (2020 £193m) is presented as a £51m current liability (2020 £51m) and a £92m non-current liability (2020 £142m).

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

	2021 £m	2020 £m
Actuarial surplus at beginning of period	302	296
Interest income	5	5
Return on scheme assets and effects of changes in assumptions	19	(22)
Additional employer contributions	52	25
Past service cost	(3)	-
Administration costs	(5)	(2)
At end of period	370	302

12. Share capital and share premium

Called up share capital	2021 Number of shares	£m	2020 Number of shares	£m
Allotted, called up and fully paid				
Ordinary shares of $8^{13}/_{24}$p each				
At start of period	429,201,117	37	428,577,760	37
Share capital issued[a]	480,126	-	623,357	-
Open offer issued[b]	166,937,606	14	-	-
At end of period	596,618,849	51	429,201,117	37

a. The Company issued 480,126 (2020 623,357) shares during the period under share option schemes for a consideration of £nil (2020 £nil). There were no dividends declared in the current period.
b. On 12 March 2021, the Group completed a fully underwritten Open Offer share issue to existing shareholders on the basis of 7 shares for every 18 fully paid ordinary shares held. As a result, a total of 166,937,606 ordinary shares with an aggregate nominal value of £14m were issued for cash consideration of £351m. Transaction costs of £9m were incurred which were directly attributable to the issuance of the new shares, resulting in £328m being recognised in share premium and net cash proceeds of £342m. Earnings per share figures for the comparative period have been restated to reflect the bonus element of the Open Offer as shown in note 7.

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.

Share premium account
The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares. Share premium of £328m (2020 £2m) has been recognised on shares issued in the period, primarily as a result of the Open Offer as described above.

13. Post balance sheet events

On 12 November 2021 the High Court ruled on the court hearing between Mitchells & Butlers plc ("the Company") and Mitchells & Butlers Pensions Limited ("the Trustee") in relation to who has the power to decide the measure of inflation to be applied to pension increases for certain members.

The existing Trust Deed and Rules in respect of the Mitchells & Butlers Pension Plan gave the Company the power to determine which measure of inflation should be applied to increases. In reliance on that power, the Company requested the Trustee to apply inflation-related increases based on CPI instead of RPI with effect from 2018. However, the Trustee believed that this power was vested to the Company in error and, in the absence of mutual agreement, made an application to the Court to seek clarification.

The judgement made by the Court in relation to the Trustee's application held that there had indeed been an error, and the rules should be rectified as requested by the Trustee. Therefore, it is now clear that the rules of the Plan can now be rectified to remove the Company's power to determine the annual inflation rate at which pensions are increased, and to re-insert the Trustee's power to change the index used for pension increases. As a result, pensions will be increased in line with RPI unless the Trustee decides to exercise its power to apply another index at some point in the future. This decision has no effect on the Plan's funding position, or the schedule of contributions payable by the Company, which have consistently been calculated assuming RPI indexation.

Members who have, since 2018, received annual inflation-related increases based upon CPI rather than RPI, will receive a further pension payment to reflect the difference between RPI and CPI in respect of those increases, together with interest. A cap of 5% to the inflation-related increases will still apply irrespective of whether payments are calculated by reference to RPI or CPI.

There is no impact on the reported balance sheet position as described in note 11.

14. Financial statements

The preliminary statement of results was approved by the Board of Directors on 24 November 2021. It does not constitute the Group's statutory consolidated financial statements for the 52 weeks ended 25 September 2021 or for the 52 weeks ended 26 September 2020. The financial information is derived from the statutory consolidated financial statements of the Group for the 52 weeks ended 25 September 2021.

Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the Company's Annual General Meeting.

The financial information for the 52 weeks ended 26 September 2020 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 25 September 2021 will be filed with the Registrar of Companies following the 2021 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 profitability measures are presented excluding separately disclosed items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of separately disclosed items provided in note 2.2.

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

APMs used to explain and monitor Group performance include:

APM	Definition	Source
EBITDA	Earnings before interest, tax, depreciation and amortisation.	Group income statement
Adjusted EBITDA	Annualised EBITDA on a 52 week basis before separately disclosed items is used to calculate net debt to EBITDA.	Group income statement
Operating profit	Earnings before interest and tax.	Group income statement
Adjusted operating profit	Operating profit before separately disclosed items.	Group income statement
Like-for-like sales growth	Like-for-like sales growth reflects the FY2021 sales performance directly against the comparable period in FY2019 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 FY2019, being the last full year pre Covid-19.	Group income statement
Adjusted loss per share (EPS)	Loss per share using loss before separately disclosed items.	Note 2.5
Net debt	Net debt comprises cash and cash equivalents, cash deposits net of borrowings and discounted lease liabilities. Presented on a constant currency basis due to the inclusion of the fixed exchange rate component of the cross currency swap.	Note 4.4 Note 4.3
Net debt: Adjusted EBITDA	The multiple of net debt including lease liabilities, as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry.	Note 4.4 Group income statement
Return on capital	Return generating capital includes investments made in new sites and investment in existing assets that materially changes the guest offer. Return on investment is measured by incremental site EBITDA following investment expressed as a percentage of return generating capital. Return on investment is measured for four years following investment. Measurement commences three periods following the opening of the site.	

A. Like-for-like sales

The sales comparisons this year have been compared directly to the sales in FY2019 being the last full year pre Covid-19. FY 2020 is not considered an appropriate comparison for trading performance due to the significant disruption caused to trade due to Covid-19 related restrictions and closures. A comparison to FY 2019 performance is a new measure and, although we note it's limitations, has been used to give the reader an insight into performance against the most recent year not to be impacted by Covid-19.

Sales of all UK managed sites that were trading in the two periods being compared, are expressed as a percentage. This widely used industry measure provides better insight into the trading performance than total revenue which is impacted by acquisitions and disposals. As like-for-like sales can only be measured when sites are trading the measure also excludes periods of closure in response to Covid-19.

	Source	**2021 52 weeks £m**	2019 52 weeks £m	**2021 vs. 2019 LFL %**
Reported revenue	Note 2.3	**1,065**	2,237	**(52.4)%**
Less non like-for-like sales and income		**(199)**	(1,279)	**84.4%**
Like-for-like sales		**866**	958	**(9.6)%**

Drink sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	**2021 vs. 2019 LFL %**
Reported drink revenue	Note 2.3	**413.5**	1,024.8	**(59.7)%**
Less non like-for-like drink sales		**(63.6)**	(578.6)	**89.0%**
Drink like-for-like sales		**349.9**	446.2	**(21.6)%**

Food sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	**2021 vs. 2019 LFL %**
Reported food revenue	Note 2.3	**592.4**	1,136.5	**(47.9)%**
Less non like-for-like food sales		**(98.6)**	(654.6)	**84.9%**
Food like-for-like sales		**493.8**	481.9	**2.5%**

Other sales

	Source	**2021 52 weeks £m**	2019 52 weeks £m	**2021 vs. 2019 LFL %**
Reported other revenue	Note 2.3	**59.4**	75.2	**(21.0)%**
Less non like-for-like other sales		**(37.5)**	(45.7)	**17.9%**
Other like-for-like sales		**21.9**	29.5	**(25.8)%**

B. Adjusted operating profit

Operating profit before separately disclosed items as set out in the Group Income Statement. Separately disclosed items are those which are separately identified by virtue of their size or incidence (see note 2.2). Excluding these items allows a better understanding of the trading of the Group.

	Source	**2021 52 weeks £m**	2020 52 weeks £m	Year-on -year %
Operating profit	Income statement	**81**	8	**912.5%**
Separately disclosed items	Note 2.2	**(52)**	91	**(157.1)%**
Adjusted operating profit		**29**	99	**(70.7)%**
Reported revenue	Income statement	**1,065**	1,475	**(27.8)%**
Adjusted operating margin		**2.7%**	6.7%	**(4.0)ppts**

C. Adjusted loss per share

Loss per share using loss before separately disclosed items. Separately disclosed items are those which are separately identified by virtue of their size or incidence. Excluding these items allows a better understanding of the trading of the Group.

	Source	**2021 52 weeks £m**	2020 52 weeks £m	Year-on -year %
Loss for the period	Income statement	**(65)**	(112)	**42.0%**
(Deduct)/add back separately disclosed items	Income statement	**(12)**	85	**(114.1)%**
Adjusted loss		**(77)**	(27)	**(185.2)%**
Basic weighted average number of shares	Note 2.5	**566**	474	**19.4%**
Adjusted loss per share		**(13.6)p**	(5.7)p	**(138.6)%**

D. Net Debt: Adjusted EBITDA

The multiple of net debt as per the balance sheet compared against 52 week EBITDA before separately disclosed items which is a widely used leverage measure in the industry. From FY 2020 leases are included in net debt following adoption of IFRS16. Adjusted EBITDA is used for this measure to prevent distortions in performance resulting from separately disclosed items.

Due to the Covid-19 closure period we do not have a representative 52 week EBITDA measure to calculate this metric and therefore it has not been used in these financial statements.

E. Return on capital

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

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

Return on expansionary capital

	Source	2020 FY17-20 £m	2021 FY18-20 £m	2021 FY21 £m	**2021 Total £m**
Maintenance and infrastructure		221	168	14	**182**
Remodel - refurbishment		224	182	9	**191**
Non-expansionary capital		445	350	23	**373**
Remodel expansionary		28	14	0	**14**
Conversions and acquisitions*		111	55	0	**55**
Expansionary capital for return calculation		139	69	0	**69**
Expansionary capital open < 3 periods pre year end		16	13	10	**23**
Total capital	Cash flow	600	432	33	**465**
Adjusted EBITDA	Income statement	1,532	1,111	168	**1,279**
Non-incremental EBITDA		(1,530)	(1,112)	(168)	**(1,280)**
Incremental EBITDA		2	(1)	0	**(1)**
Return on expansionary capital		1%	(1)%	0%	**(1)%**

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