

ANNUAL REPORT AND ACCOUNTS 2010/11

Company No 4120344



EAT SLEEP & DRINK
WHITBREAD

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Directors' report

The directors present their report and accounts for the year ended 3 March 2011

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Financial Statements. These include the business review, the corporate governance and remuneration reports and the group financial statements and accordingly these are incorporated into the report by reference.

Principal activities and review of business

The principal activities of the Group are the operation of a hotels and restaurants business and a coffee shop business. These operations are largely carried out in the UK, although Premier Inn operates one hotel in Ireland, one hotel in India and three hotels in Dubai via a joint venture. Costa operates coffee shops in 24 international markets through joint ventures or on a franchise basis, and wholly owns coffee shops in Eastern Europe. Details of the Group's activities, developments and performance for the year, the main trends and factors likely to affect its future development and performance and information required by the Companies Act 2006 relating to the business review are set out on pages 2 to 19 of the Annual Report. Details of the Company's WINcard, containing the key performance indicators can be found on page 13 of the Annual Report.

Results and dividends

| | |
|-----------------------------------------------------|------------------|
| Group profit before tax and exceptional items | £275.6 million |
| Group profit before tax and after exceptional items | £271.2 million |
| Interim dividend paid on 11 January 2011 | 11.25p per share |
| Recommended final dividend | 33.25p per share |
| Total dividend for the year | 44.50p per share |

Subject to approval at the Annual General Meeting, the final dividend will be payable on 13 July 2011 to shareholders on the register at the close of business on 13 May 2011.

Board of directors

The directors at the date of this report are listed on pages 20 and 21 of the Annual Report. All except for Andy Harrison and Ian Cheshire served throughout the year. Andy Harrison joined the Board on 1 September 2010 and succeeded Alan Parker as Chief Executive on 25 November 2010. Alan Parker stepped down from the Board on 30 November 2010. Ian Cheshire was appointed to the Board on 1 February 2011 and Philip Clarke resigned from the Board with effect from 1 March 2011.

Details of the directors' service contracts are given in the remuneration report on page 11. None of the non-executive directors has a service contract.

Details of continuing professional development programmes for all directors are given in the corporate governance report on page 7.

Share capital

Details of the issued share capital can be found in note 28 to the accounts.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives to attend general meetings and to exercise voting rights. Holders of ordinary shares may receive a dividend and on a liquidation may share in the assets of the Company. Holders of ordinary shares are entitled to receive the Company's annual report and accounts. Subject to meeting certain thresholds, holders of ordinary shares may requisition a general meeting of the Company or the proposal of resolutions at annual general meetings.

Voting rights

On a show of hands at a general meeting of the Company, every holder of ordinary shares present, in person or by proxy and entitled to vote, has one vote (unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution) and on a poll every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. Voting rights for any ordinary shares held in treasury are suspended. None of the ordinary shares carry any special rights with regard to control of the Company. Electronic and paper proxy appointments and voting instructions must be received by the Company's Registrars not later than (i) 48 hours before a meeting or adjourned meeting (excluding non-working days), or (ii) 24 hours before a poll is taken, if the poll is not taken on the same day as the meeting or adjourned meeting.

Unless the directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or at any separate general meeting of the holders of any class of shares in the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has

not paid all amounts relating to those shares which are due at the time of the meeting

Restrictions on transfer of shares

There are the following restrictions on the transfer of shares in the Company

- certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws),
- pursuant to the Company's share dealing code, the directors and senior executives of the Company require approval to deal in the Company's shares,
- where a person with at least a 0.25% interest in a class of shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares,
- the subscriber ordinary shares may not be transferred without the prior written consent of the directors,
- the directors can, without giving any reason, refuse to register the transfer of any shares which are not fully paid, and
- transfers cannot be in favour of more than four joint holders

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of shares or on voting rights

B shares and C shares

Holders of B shares and C shares are entitled to receive an annual non-cumulative preferential dividend calculated at a rate of 75% of 6 month LIBOR on a value of 155 pence per B share and 159 pence per C share respectively, but are not entitled to any further right of participation in the profits of the Company. They are also entitled to payment of 155 pence per B share and 159 pence per C share respectively on a return of capital on winding-up (excluding any intra-group reorganisation on a solvent basis)

Except in limited circumstances, the holders of the B shares and C shares are not entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Company nor to attend, speak or vote at any such general meeting

Employee share schemes

Whitbread does not have any employee share scheme with shares which have rights with regard to the control of the Company that are not exercisable directly by the employees

Appointment and replacement of directors

Directors shall be no less than two and no more than 20 in number. Directors may be appointed by the Company by ordinary resolution or by the Board of directors. A director appointed by the Board holds office until the next Annual General Meeting and is then eligible for election by the members.

At every Annual General Meeting the following directors shall retire from office in accordance with the Articles of Association

- any director who has been appointed by the directors since the last Annual General Meeting,
- any director who held office at the time of the two preceding Annual General Meetings and who did not retire at either of them, and
- any director who has been in office, other than as a director holding an executive position, for a continuous period of nine years or more at the date of the meeting

Any director who retires at an annual general meeting may offer himself for reappointment by the shareholders

In accordance with the UK Corporate Governance Code 2010 (to which the Company will be subject in respect of the 2011/12 financial year and beyond), it has been decided that all directors will stand for re-election at the forthcoming AGM

The Company may by special resolution remove any director before the expiration of his term of office

Any director automatically stops being a director if (i) he gives the Company a written notice of resignation, (ii) he gives the Company a written notice in which he offers to resign and the directors decide to accept this offer, (iii) all of the other directors (who must comprise at least three people) pass a resolution or sign a written notice requiring the director to

resign, (iv) he is or has been suffering from mental or physical ill health and the directors pass a resolution removing the director from office, (v) he has missed directors' meetings (whether or not an alternate director appointed by him attends those meetings) for a continuous period of six months without permission from the directors and the directors pass a resolution removing the director from office, (vi) a bankruptcy order is made against him or he makes any arrangement or composition with his creditors generally, (vii) he is prohibited from being a director under any applicable legislation, or (viii) he ceases to be a director under any applicable legislation or he is removed from office under the Company's Articles of Association

Amendment of the Company's Articles of Association

Any amendments to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Act by way of special resolution

Powers of the directors

The business of the Company is managed by the directors who may exercise all the powers of the Company, subject to the Company's Memorandum and Articles of Association, any relevant legislation and any directions given by the Company by passing a special resolution at a general meeting. In particular, the directors may exercise all the powers of the Company to borrow money, issue shares, appoint and remove directors and recommend and declare dividends

Significant agreements

The Company's facility agreements and the private placement loan notes agreement, details of which can be found in note 22 to the accounts, contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company

Directors' report

Contractual arrangements

The Group has contractual arrangements with numerous third parties in support of its business activities, none of which are considered individually to be essential to its business and, accordingly, it has not been considered necessary for an understanding of the development, performance or position of the Group's business to disclose information about any of those third parties

Financial instruments

Information on the Company's use of financial instruments, financial risk management objectives and policies and exposure is given in note 25 of the consolidated financial statements

Compensation for loss of office

There are no agreements between the Company and its directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid

Supplier payment policy

The Company has no trade creditors (4 March 2010 nil). The Group keeps to the payment terms which have been agreed with suppliers. Where payment terms have not been specifically agreed, it is the Group's policy to settle invoices close to the end of the month following the month of invoicing. The Group's ability to keep to these terms is dependent upon suppliers sending accurate and adequately detailed invoices to the correct address on a timely basis. The Group had 48 days' purchases outstanding at 3 March 2011 (4 March 2010 48 days), based on the trade creditors at that date and purchases made during the year

Major interests

As at 27 April 2011, the Company had received formal notification, under the Disclosure and Transparency Rules, of the following material holdings in its shares

| | No. of shares | % of issued share capital |
|---------------------------|---------------|---------------------------|
| BlackRock | 13,630,952 | 7.69% |
| Schroders Plc | 10,345,740 | 5.85% |
| Legal & General | 6,922,924 | 3.94% |
| Standard Life Investments | 5,528,439 | 3.12% |

Charitable and political donations

No direct charitable donations have been made by the Company. The Whitbread Charitable Trust made donations totalling £377,429 during the year. Costa Limited, a subsidiary of the Company, made a direct donation of £303,000 to the Costa Foundation. Further details about the Costa Foundation can be found on page 15 of the Annual Report. In addition, the Company organised and supported a number of charitable events and a number of its employees carried out charitable activities during working hours. The value of these activities has not been quantified.

The Company has not made any political donations during the year and intends to continue its policy of not doing so for the foreseeable future.

Employment policies

Whitbread has a range of employment policies covering such issues as diversity, employee well-being and equal opportunities.

The Company takes its responsibilities to the disabled seriously and seeks not to discriminate against current or prospective employees because of any disability. Employees who become disabled during their career at Whitbread will be retained in employment wherever possible and given help with rehabilitation and training.

Employee involvement

The importance of good relations and communications with employees is fundamental to the continued success of our business. Each of the Group's operating businesses maintains employee relations and consults employees as appropriate to its own particular needs. Regular internal communications are made to all employees to ensure that they are kept well informed of the performance of the Group. Further information can be found in the section 'Our people' on page 12 of the Annual Report.

Directors' indemnity

A qualifying third party indemnity provision (as defined in Section 236 (1) of the Companies Act 2006) is in force for the benefit of the directors.

Purchase of own shares

The Company is authorised to purchase its own shares in the market. Approval to renew this authority for a further year will be sought from shareholders at the 2011 AGM.

The Company did not purchase any of its own shares during the year. 14.3 million shares (representing 7.38% of the total called up share capital at the beginning of the year) are held as treasury shares (4 March 2010 14.8 million). During the course of the year, the company transferred 500,000 shares from treasury to the Employee Share Ownership Trust for the future satisfaction of awards under the Long Term Incentive Plan.

Directors' share interests

The interests of directors and their connected persons at the end of the year in the ordinary shares of 76¹²²/_{153p} each in the Company are shown below

| | Held at 03/03/2011 | Held at 04/03/2010 |
|--------------------|------------------------|------------------------|
| Anthony Habgood | 50,797 | 50,797 |
| Andy Harrison | 161,673 | 132,234 ⁽²⁾ |
| Alan Parker | 184,943 ⁽¹⁾ | 45,263 |
| Patrick Dempsey | 24,957 | 15,938 |
| Christopher Rogers | 50,000 | 34,821 |
| Richard Baker | 4,966 | 1,450 |
| Wendy Becker | 6,000 | 6,000 |
| Ian Cheshire | – | – ⁽²⁾ |
| Philip Clarke | 4,044 ⁽¹⁾ | 3,939 |
| Simon Melliss | 1,500 | 1,500 |
| Stephen Williams | 4,258 | 4,149 |

The share interests shown above include the non-beneficial interests of Anthony Habgood in 522 ordinary shares of 76¹²²/_{153p} each

⁽¹⁾ at date stepped down from the Board

⁽²⁾ at date of appointment

Further details regarding the interests of the directors in the share capital of the Company including with respect to options to acquire ordinary shares, are set out in the remuneration report. There have been no change to the interests shown above between the end of the financial year and the date of this report

Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor of the Company and a resolution proposing their reappointment will be put to shareholders at the 2011 AGM. After proper consideration, the Audit Committee is satisfied that the Company's auditor, Ernst & Young LLP, continues to be objective and independent of the Company. In coming to this conclusion, the Audit Committee gave full consideration to the non-audit work carried out by Ernst & Young LLP.

The Audit Committee has considered what work should not be carried out by the external auditor and have concluded that certain services, including internal audit, acquisition due diligence and IT consulting services, will not be carried out by Ernst & Young LLP.

Disclosure of information to auditor

The directors have taken all reasonable steps to make themselves aware of relevant audit information and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information which has not been disclosed to the auditor.

Going concern

The Group's business activities, together with the factors likely to effect its future development, performance and position are set out in the business review on pages 2 to 19 of the Annual Report. The financial position of the Company, its cash flows, net debt and borrowing facilities and the maturity of those facilities are set out in the Finance Director's report on pages 16 and 17. In addition there are further details in the financial statements on the Group's financial risk management, objectives and policies (note 25) and details of the financial instruments (note 26).

The Group has considerable financial resources and, as a consequence, the directors believe that the Group is well placed to manage its business risks.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Annual General Meeting

The AGM will be held at 2.00pm on 21 June 2011 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of Meeting is enclosed with this report for those shareholders receiving hard copy documents, and available at www.whitbread.co.uk for those who elected to receive documents electronically. At the 2011 AGM, all voting will be by Poll. Electronic handsets will be utilised and results will be displayed on the screen at the meeting.

By order of the Board

Simon Barratt
General Counsel and Company Secretary

27 April 2011

Registered Office
Whitbread Court
Houghton Hall Business Park
Porz Avenue
Dunstable
Bedfordshire
LU5 5XE

Registered in England No 4120344

The directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and any liability of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law. The directors' report includes the business review on pages 2 to 19 of the Annual Report and this report on pages 2 to 5.

The Annual Report and Accounts contain certain statements about the future outlook for the Group. Although the Company believes that the expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Corporate governance report

Whitbread is committed to maintaining high standards of corporate governance to enhance performance and for the protection of its shareholders. It is about ensuring that the Company is managed with integrity and transparency. The new UK Corporate Governance Code ('the 2010 Code') came into force during the year, but only applies to accounting periods beginning on or after 29 June 2010. For Whitbread's 2010/11 financial year the 2008 Combined Code on Corporate Governance ('the 2008 Code') still applied and the Company is required to make a compliance statement in respect of the 2008 Code in this report. Simon Barratt, General Counsel, explains below how the main and supporting principles of the 2008 Code (which is available at www.frc.org.uk) were applied during the year and also provides an update on how the Company will amend some of its governance processes to reflect the 2010 Code.

Did Whitbread comply with the 2008 Code?

During the year the Company complied with all provisions set out in Section 1 of the 2008 Code.

Details of how Whitbread has applied the main and supporting principles of the 2008 Code with regard to remuneration can be found in the remuneration report on pages 11 to 14. In addition, details of the membership and activities of the Remuneration Committee can be found on page 9.

How did the Board satisfy itself of the adequacy of its governance procedures?

The General Counsel prepared a full report to the Board on the Company's governance arrangements. This was considered at the January Board meeting where it was concluded that the Company had been fully compliant with the 2008 Code during the year. In addition, the Company takes the view that corporate governance is not a matter for the Board or its committees alone in behaving and working in the right way. The Code of Ethics covers dealings with customers, suppliers and government officials, safeguarding the Company's assets, keeping accurate and reliable records, and avoiding conflicts of interest. Its principal message is that all employees must behave with honesty and integrity. A new Global Code of Conduct is being

developed, partly in order to align the Company's policies with the new UK Bribery Act, and will be briefed to employees.

The Board

Who is on the Board of directors?

The Board currently comprises the Chairman, three executive directors and five independent non-executive directors, one of whom has been appointed Senior Independent Director. Biographies of each of the directors are set out on pages 20 and 21 of the Annual Report. We believe that the balance of skills and experience on the Board is appropriate for the requirements of the Company.

Is there clarity between the roles of the Chairman and Chief Executive?

The roles of Chairman and Chief Executive are separate, with responsibilities clearly divided between them.

The Chairman is responsible for

- leadership of the Board and setting its agenda,
- ensuring, through the General Counsel, that the members of the Board receive accurate, timely and clear information and that there is a good flow of information,
- working with the Chief Executive to ensure effective communication with shareholders,
- ensuring a culture of openness and debate around the Board table,
- managing the Board to ensure that sufficient time is allowed for the discussion of complex or contentious issues,
- ensuring that the directors continually update their knowledge and capabilities,
- ensuring that the members of the Board develop an understanding of the views of the major investors, and
- the annual evaluation of the performance of the Board and its committees and implementing the action required following such evaluation.

The Chief Executive is responsible for

- recommending the strategic direction of the Company,
- overseeing the day-to-day management of the Company,
- the line management of senior executives,
- the activities of the Whitbread Directors' Forum - a group of the Company's most senior executives, and
- ensuring effective communication with shareholders and employees.

How important is the role of the non-executive directors?

The non-executive directors play a very important role on the Whitbread Board in giving the benefit of their experience and knowledge and by constructively challenging the Whitbread executive team.

In particular, Whitbread's non-executive directors add great value in the following areas:

- Strategy - constructively challenging and helping to develop proposals on strategy,
- Performance - scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance, and
- Risk - being satisfied through the activity of the Audit Committee, the Finance Director and the executive team that appropriate processes are in place for producing the appropriate financial information, and assessing the financial controls and systems of risk management.

What is the role of the Senior Independent Director?

Stephen Williams, as the Senior Independent Director, is available to shareholders if they have concerns which the normal channels have failed to resolve or which would be inappropriate to raise with the Chairman or the executive team. He also

- leads the evaluation of the Chairman on behalf of the other directors,
- provides support to the Chairman in the delivery of his objectives,
- provides a sounding board for the Chairman, and
- is available to serve as an intermediary for the other directors if necessary.

How does the Board demonstrate independence?

The Board is committed to ensuring a majority of directors are independent. The non-executive directors all act in an independent manner at meetings in providing constructive challenge. Additionally, both the 2008 and 2010 Codes list a number of circumstances that might call the independence of a director into question and the Board is satisfied that no such circumstances exist for any of the Company's non-executive directors. None of the current non-executive directors have served for longer than nine years.

In line with the 2010 Code all directors will be subject to annual re-election from this year onwards

How does the Board operate?

The Board holds meetings regularly and for specific purposes, as and when required. During the year there were eleven Board meetings. Attendance by directors at Board meetings and Board committees is set out in the table on page 9. Before each Board meeting directors are given timely and appropriate information, including monthly financial and trading reports.

There is a schedule of matters which are dealt with exclusively by the Board. These include approval of financial statements and the preliminary announcement of the half and full-year results, changes relating to the Group's capital structure, the Group business plan, the Group budget, material investments or disposals, fundamental changes to the internal control system and maintaining sound risk management and internal control systems.

What were the Board's key activities during the year?

During the year, among other considerations, the Board

- reviewed and agreed the Group's business plans and strategy,
- set the budget for the year,
- reviewed the operational and financial performance of the businesses,
- oversaw the orderly succession of Chief Executive,
- reviewed the funding policy and agreed the US private placement,
- approved the acquisition of Coffee Nation, and
- reviewed the YOUR SAY engagement results.

What is the Board's policy and procedure for identifying and considering directors' conflicts of interest?

The Companies Act 2006 provisions relating to the duty of directors to avoid conflicts of interest came into force in October 2008. In August 2008 the directors completed a questionnaire to determine whether any conflicts or potential conflicts required authorisation by the Board. The conflicts and potential conflicts disclosed by directors were considered and authorised by the Board at the following Board meeting. Any new directors joining the Board are required to complete the same questionnaire.

Directors are required to notify the General Counsel of any new conflicts or potential conflicts as and when they arise during the year. These are then considered and approved by the Board, if appropriate, at the next meeting. All authorisations are for a period of twelve months and an annual process is in place for the Board to review all notifications and approve them for a further twelve months. In authorising a conflict or potential conflict, the Board considers whether the matter being approved would affect the director's ability to act in accordance with his/her duties to the Company. No director is counted as part of a quorum in respect of the authorisation of his/her own conflict situation. It is recognised that all companies/organisations are potential customers of Whitbread and the Board has authorised all directors' current external directorships on that basis.

How does the Board review its performance?

During the year the performance of the Board, and individual directors' contributions to the Board, are appraised by the Chairman. This year each director completed a formal questionnaire on the Board's performance and the Chairman met or spoke to each director on a one to one basis. The performance of the Board's committees was also reviewed during the year.

The results of the review were discussed by the Board and appropriate action plans were agreed. There was a consistently positive response from directors on the effectiveness of the Board and its committees. As a result of the review a number of actions will be taken including giving greater opportunity for the non-executive members of the Board to visit Whitbread outlets, and the introduction of an updated rolling Board meeting agenda.

The performance of the Chairman is evaluated during the year by the Senior Independent Director who reviews the Chairman's performance with each of the directors and discusses the results with the Chairman.

A provision of the 2010 Code states that evaluation of the Board should be externally facilitated at least

every three years. The Board is considering the manner in which it will respond to this provision.

How are directors kept up to date with new developments?

The monthly Secretariat report gives updates to directors on relevant corporate legislation, such as the Bribery Act, and specific sessions are arranged at Board meetings on topics such as health and safety and pensions. During the year directors attended training courses and seminars, or received tailored training, on a number of relevant issues including

- company law,
- board practice,
- audit committees,
- remuneration committees,
- health and safety,
- role of the Chairman,
- stewardship code,
- challenge of leadership,
- corporate responsibility,
- pensions, and
- board responsibility.

The Board receives regular investor relations reports, which include share price performance, movements in institutional holdings and the reaction of investors to the communications programme. The Board is also informed of legal and corporate governance updates and best practice.

Corporate governance report

Internal control

Does the Company maintain adequate systems of internal control?

The Board is responsible for the Group's systems of internal control and risk management, and for reviewing their effectiveness. These systems are designed to manage rather than eliminate risk of failure to achieve business objectives. They can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Board has established an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place throughout the 2010/11 financial year and up to the date of this report. The process is regularly reviewed by the Board and accords with the internal control guidance for directors in the Combined Code. A report of the key risks can be found on pages 18 and 19 of the Annual Report.

Key elements of the Group's risk management and internal control system include:

- the formulation, evaluation and annual approval by the Board of business plans and budgets. Actual results are reported monthly against budget and the previous year's figures. Key risks are identified and action plans prepared accordingly,
- the production by each business of a risks and controls matrix, covering major risks and plans which are considered regularly by the management boards and form the basis of the Group risks matrix considered by the Audit Committee,
- a regular review by the Board of changes in the major risks facing the Group and development of appropriate action plans,
- the consideration of risks and appropriate action plans, when appraising and approving all major capital and revenue projects and change programmes. A post completion review of each major project is undertaken,
- financial policies, controls and procedures manuals, which are regularly reviewed and updated,
- the limits of authority, which are prescribed for employees. Whitbread's organisational structure allows the appropriate segregation of tasks,

- the Code of Ethics, which is communicated to employees,
- the operational audit team (which has been outsourced to PwC) activity, which reports on the effectiveness of operational and financial controls across the Group, and
- the Audit Committee regularly reviews the major findings from both operational and external audit.

Management and specialists within the finance department are responsible for ensuring the appropriate maintenance of financial records and processes that ensure all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to the approval of the Audit Committee.

The Board, acting through the Audit Committee, has directed the work of PwC's operational audit team to a rolling risk based audit agenda. The Committee approves a rolling audit programme, ensuring that all significant areas of the business are independently reviewed within at least a three year period. The programme and findings of the reviews are continually assessed to ensure they take account of the latest information and, in particular, the results of the annual review of internal controls. The effectiveness of the operational audit team is reviewed annually by the Committee. The Committee considers the principal risks identified by the risk management process which are also considered by the main and management boards throughout the year.

An annual review of internal controls is undertaken by the Board with the assistance of the Audit Committee, which reports to the March Board meeting.

Board committees

What committees does the Board have?

The Company has an Audit Committee, a Nomination Committee and a Remuneration Committee. The committees operate within defined terms of reference, copies of which can be found on the Company's website www.whitbread.co.uk.

Audit Committee

Members of Committee:

Simon Melliss (Chairman)

Richard Baker

Wendy Becker

The Audit Committee comprises three non-executive directors under the chairmanship of Simon Melliss, who is Chief Financial Officer of Hammerson plc, and has recent and relevant financial experience.

The role of the Committee is to assist the Board in fulfilling its corporate governance and oversight responsibilities by:

- monitoring, reviewing and reporting to the Board on the integrity of the financial statements, the effectiveness of the Group's risk management system and internal controls, the scope, objectivity and effectiveness of the operational auditors, the independence, objectivity and effectiveness of the external auditors, and any matters in respect of which it considers that action or improvement is needed in this context and making recommendations as to the steps to be taken,
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, and
- making recommendations to the Board, for it to be put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditors, and approving the remuneration and terms of their engagement.

The Committee generally holds three meetings in a year. In October and April each year the Committee considers the half and full-year financial statements respectively. As part of that process the management team present the statements to the Committee with the external auditors (Ernst & Young) and operational auditors (PwC) present. Ernst & Young present a paper on the audit/review process and the main points of discussion that have arisen. PwC report on the internal audits carried out in the respective periods.

In March each year the Committee considers, in detail, internal control processes including treasury, tax and retail audit reports along with a Group risk analysis.

The performance of the external and operational audits are considered each year along with the effectiveness of the Committee itself. The Committee also meets with both the external and operational auditors without the executive team being present. Terms of reference are reviewed annually.

During the year the Audit Committee engaged in a full review of the provision of external audit services, where other audit firms were given the opportunity to tender. Following presentations from each bidding firm it was agreed that Ernst & Young would continue to be the Company's auditor.

Remuneration Committee

Members of Committee:

Ian Cheshire (Chairman)

Richard Baker

Wendy Becker

Anthony Habgood

Stephen Williams

The Remuneration Committee comprises four non-executive directors and the Company Chairman under the chairmanship of Ian Cheshire who is Group Chief Executive of Kingfisher plc. Ian replaced Philip Clarke as Chairman of the Committee on 1 March 2011.

The Remuneration Committee's role is to assist the Board in

| | Board | Audit Committee | Nomination Committee ⁽⁷⁾ | Remuneration Committee |
|-------------------------------------------------|-----------|-----------------|-------------------------------------|------------------------|
| Number of meetings in the financial year | 11 | 3 | 5 | 8 |
| Anthony Habgood | 11 | - | 5 | 8 |
| Andy Harrison ⁽¹⁾ | 6 | - | - | - |
| Patrick Dempsey | 11 | - | - | - |
| Christopher Rogers | 11 | - | - | - |
| Alan Parker ⁽²⁾ | 7 | - | 3 | - |
| Richard Baker ⁽³⁾ | 11 | 3 | 1 | - |
| Wendy Becker | 11 | 3 | 1 | 7 |
| Ian Cheshire ⁽⁴⁾ | 1 | - | - | 1 |
| Simon Melliss ⁽⁵⁾ | 11 | 3 | 3 | - |
| Stephen Williams | 11 | - | 5 | 8 |
| Philip Clarke ⁽⁶⁾ | 8 | - | 1 | 7 |

Members of the executive team attended committee meetings as appropriate

- (1) Andy Harrison was appointed as a director on 1 September 2010. Six Board meetings were held after that date.
- (2) Alan Parker retired on 30 November 2010. Eight Board meetings and four Nomination Committee meetings were held up to that date.
- (3) Richard Baker was appointed to the Remuneration Committee since the year end.
- (4) Ian Cheshire was appointed to the Board on 1 February 2011. One Board meeting and one Remuneration Committee meeting was held after that date.
- (5) Simon Melliss was appointed as member of the Nomination Committee on 22 April 2010. Two Nomination Committee meetings were held after that date and he attended one Chief Executive Succession Committee meeting prior to that date.
- (6) Philip Clarke resigned as director on 1 March 2011. Ten Board meetings and seven Remuneration Committee meetings were held up to that date.
- (7) Number of meetings includes one Chief Executive Succession Committee meeting. This was the meeting attended by Richard Baker, Wendy Becker and Philip Clarke.

determining the remuneration of the executive directors and the Chairman, approving the executive incentive schemes and monitoring the remuneration of other senior executives. Full details of the Committee's work are set out in the remuneration report on pages 11 to 14.

Nomination Committee

Members of Committee:

Anthony Habgood (Chairman)

Simon Melliss

Stephen Williams

The Nomination Committee comprises two non-executive directors and the Company Chairman, who also chairs the Committee.

The Nomination Committee is responsible for succession planning and regularly reviews the structure,

size and composition of the Board and makes recommendations to the Board with regard to any potential appointments. Before making recommendations an evaluation of the skills and experience on the Board is made and a description of the role and capabilities required is prepared. During the current year the Committee recommended the appointment of Ian Cheshire having appointed an external search consultancy. The appointment followed the decision of Philip Clarke to step down from the Board as a result of his appointment as Chief Executive of Tesco. Ian Cheshire is a serving Chief Executive of a large successful international consumer-facing business, and is able to provide Whitbread with valuable advice and support as we grow both in the UK and internationally.

In addition the Committee reviews the composition of the Audit and Remuneration Committees.

Corporate governance report

Shareholder relations

Any shareholder may contact the Chairman or, if appropriate, the Senior Independent Director to raise any issue, including those relating to strategy and governance. Alternatively, shareholders may raise any such issues with one or all of the non-executive directors of the Company. The General Counsel can facilitate any such communication if requested.

Recent topics of interest to investors have been the new Chief Executive's strategic plans, the development of dynamic pricing in Premier Inn, expansion plans for the businesses, including internationally and the impact of continuing cost inflation.

How does the Company interact with institutional investors?

Institutional shareholders, fund managers and analysts are briefed at regular meetings and presentations. Following the full year and interim results in April and October respectively, the Chief Executive and the Finance Director have meetings with institutional investors. The Chairman also had meetings with a number of the largest shareholders in the Company during the year. Andy Harrison met a number of shareholders when he joined the Company to get a good understanding of their views.

At the annual Board strategy meeting in November 2010, reports were presented which described the views of major shareholders of the Company and its current strategy. It is believed that the Board, including the Senior Independent Director, has an adequate understanding of the issues and concerns of major shareholders. No other meetings have been requested by shareholders with the Chairman or Senior Independent Director. Non-executive directors are able to attend these meetings and would do so if requested by major shareholders.

How does the Company interact with private investors?

Annual and interim results presentations are webcast live so that all shareholders can receive the same information at the same time. The Company has taken advantage of the provisions in the Companies Act 2006, which allows communication to be made with shareholders electronically unless they have requested hard copy documentation. The Company's website provides comprehensive information for private shareholders, with the Annual Report and Accounts, trading statements, interim management statements and public announcements all being available at www.whitbread.co.uk.

The Board recognises the importance of two-way communication with the Company's shareholders and believes the Annual General Meeting provides a forum for the Board to inform shareholders about how the Company has performed during the year. Private shareholders have the opportunity to put questions to the Board at the AGM and at all other times by emailing or writing to the Company. Wherever possible, all directors attend the AGM. At the 2011 AGM, all voting will be on a poll. Electronic handsets will be utilised and voting results will be displayed on a screen at the meeting. In addition, the audited poll results will be disclosed on the Company's website following the meeting, and announced by regulatory news service. The information that is required by DTR 7.2.6, information relating to the share capital of the Company, can be found within the directors' report on pages 2 and 5.

Remuneration report

Introduction from Ian Cheshire

When I joined the Board of Whitbread I was pleased to be given the opportunity to chair the Remuneration Committee. I would like to thank Philip Clarke, who preceded me, for his contribution as Chair of the Remuneration Committee.

The future success of Whitbread is dependent on the skills and enthusiasm of the people who work in our businesses. It is important that employees throughout the organisation are motivated to continue to deliver outstanding service to our customers and value to our shareholders. We consider the pay and employment conditions across the Group when determining executive remuneration.

In this report you will find a summary of key facts, information about our current remuneration policy and the TSR graph, followed by a series of questions and answers. The usual tables outlining directors' remuneration and share scheme participation are at the back of this report. The remuneration report will be the subject of a shareholder resolution to be proposed at the AGM. There are parts of this report that have to be audited and these are clearly marked as 'audited information'.

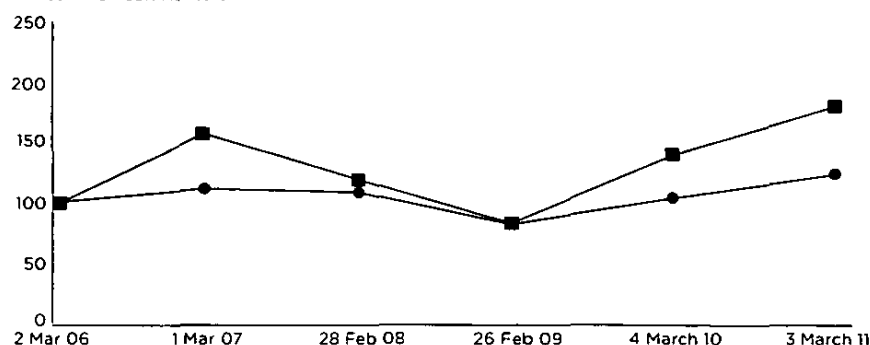
Key points are

- we have recently decided to extend eligibility to LTIP awards to an additional 32 executives in order to incentivise them over the medium term, and shareholding guidelines have been introduced for this group,
- the increase in profits has resulted in good bonuses deservedly being awarded, with a significant proportion of these bonuses paid in deferred shares,
- based on a strong performance over the past three years, the 2008 LTIP award has vested at 82.4% of its maximum,
- Towers Watson was appointed as the Committee's external adviser, and
- Alan Parker retired as Chief Executive during the year and we implemented the leaving arrangements disclosed in last year's remuneration report.

| | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Membership of the Remuneration Committee | Ian Cheshire (Chairman since 1 March 2011) Richard Baker Wendy Becker Anthony Habgood Stephen Williams Simon Barratt (Secretary) Philip Clarke (Chairman until 1 March 2011) |
| External advisers | Towers Watson Slaughter and May Hewitt New Bridge Street |
| Internal adviser | Louise Smalley (Group HR Director) |
| Remuneration policy | To pay our people fairly in a manner that supports our goals, incentivises them to achieve those goals and is responsible having regard to the interests of all the Group's stakeholders |
| Directors' service contracts (all available for inspection at the Company's registered office) | All executive directors have rolling contracts of employment with notice periods of 12 months. Commencement dates for the contracts are: Patrick Dempsey 8 September 2004 Andy Harrison 1 September 2010 Christopher Rogers 1 May 2005 |
| Chairman and non-executive directors - dates of appointment letters (all available for inspection at the Company's registered office) (Note: none of the non-executive directors has a service contract) | Anthony Habgood - 14 April 2005 Richard Baker - 4 September 2009 Wendy Becker - 17 January 2008 Ian Cheshire - 21 January 2011 Simon Melliss - 23 March 2007 Stephen Williams - 25 April 2008 |
| Non-executive directors' fees | Base fee £55,000 Chair of Audit/Remuneration Committee £10,000 Senior Independent Director £10,000 |
| Fees retained from external directorships | Alan Parker £58,000 Christopher Rogers £45,000 |
| Terms of reference | Available at www.whitbread.co.uk |

Total shareholder return

Source: Thomson Reuters



This graph looks at the value by 3 March 2011 of £100 invested in Whitbread PLC on 2 March 2006 compared on a consistent basis with that of £100 invested in the FTSE 100 Index based on 30 trading day average values.

Whitbread PLC ■ FTSE 100 Index ●

Remuneration report

Questions & Answers

In this section, Ian Cheshire answers questions on how remuneration is managed at Whitbread

Does Whitbread's Remuneration Committee fully meet the requirements of the 2008 Combined Code on Corporate Governance?

Yes, the membership of the Committee is compliant with the Combined Code

The Combined Code (which is available at www.frc.org.uk) sets out the duties and powers which companies are expected to delegate to their remuneration committees. Whitbread's Committee has terms of reference (available at www.whitbread.co.uk or by requesting a copy in writing from the General Counsel's office) which set out its duties and powers and these terms of reference comply with the Combined Code. These terms of reference have been reviewed and implemented by the Committee.

The Committee met eight times in 2010/11. The attendance of individual members of the Committee at meetings is shown on page 9.

Who provides advice to the Committee?

During the year, the Committee ran a tender process to determine which independent remuneration consultants would provide advice for the future. This was a thorough and robust process. The result was that Towers Watson was appointed as the Committee's new adviser and we look forward to working with them. Hewitt New Bridge Street provides external advice in relation to the LTIP vesting calculations. In addition, internal advice is received from the Group Human Resources Director, Louise Smalley. Simon Barratt, General Counsel, acts as Secretary to the Committee.

The Group also receives advice on the implementation of the Committee's decisions and recommendations from Towers Watson and Slaughter and May. Towers Watson provides pay benchmarking, retirement and change management services and Slaughter and May provides legal services.

What are the main principles of Whitbread's remuneration policy?

It is important that our senior executives have the skills, expertise, enthusiasm and drive to achieve the Group's objectives resulting in the long-term sustainable success of the business. Our job is to ensure that the overall remuneration package is sufficiently competitive to attract, retain and motivate executives with the necessary attributes.

We are determined to ensure that the interests of executives and shareholders are aligned and we recognise the importance of having a significant proportion of an executive's remuneration being linked to performance as well as the importance of the balance between short and long-term rewards.

How are base salaries determined?

We review base salaries on an annual basis and consider a number of factors, including market data as well as pay and employment conditions across the Group. When awarding a base salary increase to an executive director, we take into account the personal performance of the director measured against agreed objectives as well as the trading circumstances across the whole Group. Any salary increases take effect from 1 May. The Committee has agreed salary increases for the executive directors as follows:

| | Increase | Salary from 1 May 2011 |
|--------------------|----------|------------------------|
| Andy Harrison | 2.5% | £717,500 |
| Christopher Rogers | 3.0% | £504,700 |
| Patrick Dempsey | 5.0% | £420,000 |

Fees for the Chairman and non-executive directors have remained unchanged and will be reviewed during the year.

Are executives entitled to other benefits?

All executive directors are entitled to life assurance and private health cover. Non-core benefits, for which cash alternatives are available, are family health cover and a fully expensed company car.

What are the pension arrangements for executive directors?

Our policy is to pay a Company contribution of 25% of salary for executive directors, with these contributions being increased by a further 2.5% of salary after each of five and ten years' service. Executives are given the option of receiving a monthly amount in cash (less an amount equal to the employer's national insurance payable on the amount) instead of the Company pension contribution.

Full details of the directors' pension entitlements, including cash supplements, can be found on page 15.

How does the Whitbread Incentive Scheme Work?

The Whitbread Incentive Scheme (WIS), is a bonus scheme which applies to approximately 50 executives. The scheme is intended to provide a clear link between annual performance and reward for key executives. It promotes alignment with shareholders by providing a significant proportion of the bonus earned in the form of deferred shares.

There are two elements of the WIS for 2011/12:

- a profit element, and
- a WINcard (further details can be found on page 13 of the Annual Report) element (excluding profit growth).

At the beginning of the financial year profit targets are set for the Group and its businesses. Depending on the profit performance achieved during the year, a bonus award of cash and deferred shares may be made at the end of the year. The cash element of the bonus is payable immediately. The deferred shares will normally be transferred into the executive's name three years after the award date as long as the executive remains employed by the Whitbread Group during that period.

For 2011/12 the levels of cash and deferred shares (expressed as percentages of base salaries) that can be awarded at different levels of performance to executive directors are as follows

| Performance | Bonus earned (% of salary) |
|------------------|---------------------------------------------------|
| Below threshold | Nil |
| At threshold | 7% cash 15% deferred shares |
| On target | 20% cash 37% deferred shares |
| Stretch or above | 49% cash (maximum payable) 88% deferred shares |

Straight lines operate between the above levels of performance. Threshold will be the minimum level at which awards will be earned. The level of performance required to achieve threshold has been raised for 2011/12. The target level of performance will be consistent with budgeted performance and stretch will be significantly above budget. The profit element of the bonus will be reduced if a return on capital hurdle is not achieved. The failure to meet this hurdle would result in the reduction of cash and deferred shares payable as outlined above being reduced by 25%.

Targets for future financial years will be determined by the Committee at, or near to, the beginning of each financial year.

The Committee assesses the results of the business at the end of each financial year, as well as the performance of each executive director against pre-determined targets before agreeing the awards.

Whitbread uses the WINcard to manage its businesses, but to what extent are executives incentivised based on WINcard measures?

Profit growth, a key WINcard measure, is the main basis for awards made under the WIS. Executives may also earn a maximum cash bonus of 30% of base salary for meeting other WINcard targets. This has

increased from 20% in the prior year in order to place greater emphasis on performance against the WINcard. However, the maximum bonus opportunity is unchanged. These targets apply to all management throughout the Company. They are set at the beginning of the financial year and, for executive directors, performance against other WINcard measures is reviewed and approved by the Committee after the year-end. The WINcard element of the bonus will be reduced in the event that a health and safety hurdle is not achieved. Further details on the WINcard can be found on page 13 of the Annual Report.

What is the Long Term Incentive Plan (LTIP)?

The LTIP is all about the future. It rewards executives with share awards if earnings and relative total shareholder return performance conditions are met over a three-year period. For 2011/12, LTIP participation will be extended to an additional 32 executives in order to provide greater focus on the longer term. Executive directors will be granted awards in 2011/12 calculated as follows:

| | % of salary |
|--------------------|-------------|
| Andy Harrison | 125% |
| Christopher Rogers | 125% |
| Patrick Dempsey | 100% |

The shares will normally only be transferred into the executive's name in the event that the executive remains a Whitbread employee and that performance conditions are met over a three-year performance period.

How are the LTIP performance conditions selected and what are they?

The Committee selects performance conditions that it believes will closely align the interests of executives with the creation of long-term sustainable value.

For awards made in 2011, as was the case for awards made in 2010, two performance conditions have been selected. Each condition will apply to half of the awards. The two conditions are relative total shareholder return (TSR) and earnings per share (EPS) growth as shown on page 14.

The measurement of relative TSR will compare Whitbread's TSR with that of a comparator group of companies over a three-year period. For the 2011 awards, this will be the period from 4 March 2011 to 27 February 2014. Averaging will take place before the start and end of the performance period to reduce the impact of short-term share price fluctuations. The Committee has decided that the most appropriate comparator group for 2011 awards continues to be the FTSE 51-150 excluding companies in the financial services, mining and oil & gas.

Our policy for the EPS targets is that there must be real growth of 4% to 10% per annum from the most recent EPS figure at the time of grant. Again this is measured over three years, with the third year's EPS determining the vesting level. The EPS and TSR targets for unvested awards are set out in the table on page 17.

The TSR calculations are produced for the Committee by Hewitt New Bridge Street, while the EPS calculations are verified by the Company's auditor Ernst & Young LLP. The results are considered by the Committee before the vesting level is confirmed.

Have any LTIP awards vested in 2011?

The awards made in 2008 were subject to a relative TSR performance condition and EPS condition. The EPS performance condition was partially met and the TSR of Whitbread was in the upper quartile of the FTSE 51-150 comparator group, resulting in an overall vesting level of 82.4%.

Are executive directors required to hold Whitbread shares?

Under our share ownership guidelines executive directors are required to build and hold a shareholding equal to 100% of their salary within five years and other senior executives 50% of salary.

Remuneration report

The LTIP awards granted in 2011 will vest in three years' time as follows

TSR Condition (applies to half of the award)

| Position at which the Company is ranked | Proportion of award vesting to executive |
|-----------------------------------------|--------------------------------------------------------------|
| Upper quartile and above | Full vesting |
| Between median and upper quartile | Pro rata on a straight line between quarter and full vesting |
| Median (threshold) | Quarter of the award vests |
| Below Median | This half of the award does not vest |

EPS Condition (applies to half of the award)

| 2013/14 EPS required annual percentage growth above Whitbread's 2010/11 EPS | Proportion of award vesting to executive |
|-----------------------------------------------------------------------------|--------------------------------------------------------------|
| RPI +10% or above per annum | Full vesting |
| Between RPI +4% and RPI +10% per annum | Pro rata on a straight line between quarter and full vesting |
| RPI +4% per annum (threshold) | Quarter of the award vests |
| Below RPI +4% per annum | This half of the award does not vest |

Did Andy Harrison receive any awards on appointment?

As was disclosed in last year's annual report, Andy Harrison received two awards under the terms of his appointment. Firstly, Andy received an LTIP award to the value of 175% of his base salary. This award is subject to the same terms as the LTIP awards received by the other executive directors and will vest, subject to the satisfaction of performance conditions, at the end of the 2012/13 financial year. In addition, Andy was entitled to a matching award if he purchased £1 million worth of Whitbread shares by the end of the financial year that has just ended. Andy demonstrated his belief in the future success of the Company by purchasing 161,673 shares. Andy purchased 67,468 shares for his initial £1 million investment and this is the number of shares over which he has been granted a matching award. This award is subject to the same performance conditions as the 2010 LTIP awards, but with no vesting at threshold performance. The performance period will run from 4 March 2011 to 27 February 2014. It is also contingent on Andy's retention of the original 67,468 shares he purchased.

Did Alan Parker receive any bonuses or awards when he retired?

Last year it was explained in this report that Alan Parker would not receive an LTIP award in 2010, but would be entitled to a cash award of 50% of his base salary for achieving a number of non-profit targets related to the Chief Executive transition process. Alan achieved these objectives and received a cash payment of £357,750. Alan is also entitled to a pro-rated bonus for the 2010/11 financial year from the WIS. Details of the cash and deferred share awards he has received can be found on page 15. The deferred shares will vest at the end of the 2013/14 financial year along with the awards made this year to other executives.

How is the remuneration of the Chairman and the non-executive directors determined?

The fees paid to non-executive directors are determined by the Chairman, together with the executive directors. The Chairman's remuneration is determined by the Remuneration Committee, but the Chairman is not present at these discussions.

Directors' remuneration for the year to 3 March 2011 (audited information)

The table below shows a breakdown of the various elements of pay received by the directors for the period from 5 March 2010 to 3 March 2011

| | Basic salary | Cash in lieu of pension | Taxable benefits | Performance related awards* | | Total excluding pensions | |
|--------------------------------|---------------------------|-------------------------|------------------|-----------------------------|----------------------|--------------------------|--------------------------|
| | £ | £ | £ | Cash £ | Deferred equity £ | 2010/11 £ | 2009/10 £ |
| Chairman | | | | | | | |
| Anthony Habgood | 300,000 | - | - | - | - | 300,000 | 300,000 |
| Executive Directors | | | | | | | |
| Patrick Dempsey | 413 000 ⁽¹⁾ | - | 10 001 | 249 901 | 352 099 | 1 024 908 | 1 073 027 |
| Andy Harrison | 367 925 ⁽¹⁾⁽²⁾ | 77 571 | 566 | 231 284 | 326 769 | 1 004 115 | - |
| Alan Parker | 556 173 ⁽¹⁾⁽²⁾ | 142,719 | 8 264 | 723,737 | 498,713 | 1,924,482 | 2 140 176 |
| Christopher Rogers | 503 663 ⁽¹⁾ | 115,994 | 1 132 | 320 278 | 452,504 | 1 393 571 | 1,308 675 |
| Non-Executive Directors | | | | | | | |
| Richard Baker | 55 000 | - | - | - | - | 55 000 | 26,533 ⁽²⁾ |
| Wendy Becker | 55 000 | - | - | - | - | 55 000 | 55 000 |
| Ian Cheshire | 5 417 ⁽²⁾⁽⁴⁾ | - | - | - | - | 5 417 | - |
| Philip Clarke | 65,000 ⁽⁴⁾ | - | - | - | - | 65,000 | 60 000 ⁽⁴⁾ |
| Charles Gurassa | - | - | - | - | - | - | 33 555 ⁽²⁾⁽⁴⁾ |
| Simon Melliss | 65 000 ⁽²⁾ | - | - | - | - | 65 000 | 65 000 ⁽²⁾ |
| Stephen Williams | 65,000 ⁽²⁾ | - | - | - | - | 65,000 | 65 000 ⁽²⁾ |

Total emoluments for the year were £5,957,293 The total for 2009/10 was £5,126,966

* The performance related awards include two cash elements (one of which is based on WINcard targets and the other a profit target) and a deferred equity element described on pages 12 and 13. In addition, Andy Harrison, Patrick Dempsey and Christopher Rogers received awards under the Long Term Incentive Plan (LTIP) to the value of £875 000, £400 000 and £612,500 respectively. Andy Harrison also received an LTIP award to the value of £1 225 000 on appointment and a Matching Award to the value of £1,000 000 under the terms of his appointment. Details can be found on page 14. The LTIP awards are conditional on the achievement of a combined TSR/EPS target described on pages 13 and 14.

(1) Includes a car allowance

(2) Fees/salary for part-year

(3) Includes fees as Chairman of the Audit Committee

(4) Includes fees as Chairman of the Remuneration Committee

(5) Includes fees as Senior Independent Director

Directors' pension entitlements (audited information)

None of the executive directors are accruing benefits under any other company pension arrangements. No elements of the executive directors' pay packages are pensionable other than base salaries.

Neither the Chairman nor any of the non-executive directors are entitled to participate in the Company's pension arrangements.

All pension benefits are defined contribution and executive directors can choose to have contributions paid into the defined contribution section of the Whitbread Group Pension Fund or paid as a cash supplement to salary.

Alan Parker received a cash supplement of £142,719 during the year.

Andy Harrison received a cash supplement of £77,571 during the year.

Christopher Rogers received a cash supplement of £115,994 during the year.

Patrick Dempsey received employer contributions of £110,000 (2009/10 £104,666) into the defined contribution section of the Whitbread Group Pension Fund.

Remuneration report

Long Term Incentive Plan ('the Plan') (audited information)

Potential share awards held by the executive directors and previous executive directors under the Plan at the beginning and end of the year, and details of awards vesting during the year and their value, are as follows

| | 05/03/10* | Awarded | Lapsed | Vested | 03/03/11* | Conditional Award Granted | Performance Period Ends | Market Price at Award | Date Vested Award Exercised | Price at Exercise | Monetary Value of Exercised Award (£) |
|--------------------|-----------|---------|--------|--------|-----------|---------------------------|-------------------------|-----------------------|-----------------------------|-------------------|---------------------------------------|
| Patrick Dempsey | 20 193 | - | 4 869 | 15 324 | - | 01/03/07 | 28/02/10 | 1671 0p | 22/03/10 | 1511 93p | 231 688 |
| | 14 894 | - | - | - | 14 894 | 01/03/08 | 28/02/11 | 1256 6p | - | - | - |
| | 54 458 | - | - | - | 54 458 | 01/03/09 | 29/02/12 | 734 5p | - | - | - |
| | 28,272 | - | - | - | 28 272 | 01/03/10 | 28/02/13 | 1414 8p | - | - | - |
| | - | 22 378 | - | - | 22 378 | 01/03/11 | 28/02/14 | 1787 4p | - | - | - |
| | 117,817 | 22,378 | 4,869 | 15,324 | 120,002 | | | | | | 231,688 |
| Andy Harrison** | - | 86,584 | - | - | 86 584 | 01/09/10 | 28/02/13 | 1414 8p | - | - | - |
| | - | 48,953 | - | - | 48,953 | 01/03/11 | 28/02/14 | 1787 4p | - | - | - |
| | - | 135,537 | - | - | 135,537 | | | | | | - |
| Christopher Rogers | 29 454 | - | 7,102 | 22 352 | - | 01/03/07 | 28/02/10 | 1671 0p | 22/03/10 | 1511 93p | 337,947 |
| | 33 423 | - | - | - | 33 423 | 01/03/08 | 28/02/11 | 1256 6p | - | - | - |
| | 60 612 | - | - | - | 60 612 | 01/03/09 | 29/02/12 | 734 5p | - | - | - |
| | 39 334 | - | - | - | 39,334 | 01/03/10 | 28/02/13 | 1414 8p | - | - | - |
| | - | 34,267 | - | - | 34,267 | 01/03/11 | 28/02/14 | 1787 4p | - | - | - |
| | 162,823 | 34,267 | 7,102 | 22,352 | 167,636 | | | | | | 337,947 |
| Alan Parker | 47 127 | - | 11,363 | 35,764 | - | 01/03/07 | 28/02/10 | 1671 0p | 22/03/10 | 1511 93p | 540,726 65 |
| | 67,145 | - | - | - | 67 145 | 01/03/08 | 28/02/11 | 1256 6p | - | - | - |
| | 121 766 | - | - | - | 121 766 | 01/03/09 | 29/02/12 | 734 5p | - | - | - |
| | 236,038 | - | 11,363 | 35,764 | 198,911 | | | | | | 540,727 |

The aggregate value of exercised awards was £1,110 362 (2009/10 £444 065)

* Or date of appointment/retirement as appropriate

** As explained on pages 13 and 14 under the terms of Andy Harrison's appointment he received a matching award over 67468 shares on 1 March 2011. The award is subject to the satisfaction of performance conditions and the continued retention of the same number of shares previously purchased by Andy. The performance conditions are the same as those for the general 2010 LTIP award except that the performance period runs for three years up to the end of the 2013/14 financial year and that there is no vesting at threshold performance. The LTIP award made to Andy Harrison when he joined the Company on 1 September 2010 was under the rules of the Plan, technically made on 1 March 2011 and was therefore based on the same market price as awards made earlier in the year.

LTIP performance conditions

The performance conditions for awards made in 2011 are shown on page 34 and performance conditions for awards made between 2007 and 2010 are shown below

| | Performance metrics | TSR condition | EPS condition |
|----------------------|---------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2007 and 2008 awards | 50% TSR and 50% EPS | TSR growth against FTSE 51-150 constituents - median (25% vests) to upper quartile (100% vests) | EPS growth must be at least equal to or exceed RPI + 4% p a (25% vests) to RPI + 10% p a (100% vests) |
| 2009 award | 50% TSR and 50% EPS | TSR growth against FTSE 51-150 constituents - median (25% vests) to upper quartile (100% vests) | 2011/12 EPS - less than 92 pence, nil vesting, 92 pence, 25% vests, 107 pence or more, 100% vests, and between 92 pence and 107 pence, pro-rating between 25% and 100% vesting applies |
| 2010 award | 50% TSR and 50% EPS | TSR growth against FTSE 51-150 constituents - median (25% vests) to upper quartile (100% vests) | EPS growth must be at least equal to or exceed RPI + 4% p a (25% vests) to RPI + 10% p a (100% vests) |

Whitbread Incentive Scheme ('the Scheme') (audited information)

At 3 March 2011 the directors and previous executive directors held the following deferred shares under the Scheme

| Name | Year of Award | Balance at 05/03/2010* | Awarded | Lapsed | Vested | Balance at 03/03/2011* | Release date | Market Price at Award | Date Award Vested | Market Price at Vesting | Monetary Value of Vested Award |
|----------------------------|---------------|------------------------|---------|--------|--------|------------------------|--------------|-----------------------|-------------------|-------------------------|--------------------------------|
| Patrick Dempsey | 2008 | 22,341 | - | - | 22,341 | - | - | 1256 6p | 02/03/2011 | 1644 0p | £367,286 |
| | 2009 | 26,353 | - | - | - | 26,353 | 01/03/2012 | 734 5p | - | - | - |
| | 2010 | 26,210 | - | - | - | 26,210 | 01/03/2013 | 1414 8p | - | - | - |
| | 2011 | - | 19,698 | - | - | 19,698 | 01/03/2014 | 1787 4p | - | - | - |
| | | | 74,904 | 19,698 | - | 22,341 | 72,261 | | | | |
| Andy Harrison | 2011 | - | 18,281 | - | - | 18,281 | 01/03/2014 | 1787 4p | - | - | - |
| | | | - | 18,281 | - | - | 18,281 | | | | - |
| Christopher Rogers | 2008 | 33,423 | - | - | 33,423 | - | - | 1256 6p | 02/03/2011 | 1644 0p | £549,474 |
| | 2009 | 36,354 | - | - | - | 36,354 | 01/03/2012 | 734 5p | - | - | - |
| | 2010 | 29,579 | - | - | - | 29,579 | 01/03/2013 | 1414 8p | - | - | - |
| | 2011 | - | 25,316 | - | - | 25,316 | 01/03/2014 | 1787 4p | - | - | - |
| | | | 99,356 | 25,316 | - | 33,423 | 91,249 | | | | |
| Alan Parker ⁽¹⁾ | 2008 | 53,716 | - | - | 53,716 | - | - | 1256 6p | 30/11/2010 | 1689 0p | £907,263 |
| | 2009 | 58,426 | - | - | 58,426 | - | - | 734 5p | 30/11/2010 | 1689 0p | £986,815 |
| | 2010 | 47,538 | - | - | 47,538 | - | - | 1414 8p | 30/11/2010 | 1689 0p | £802,917 |
| | | | 159,680 | - | - | 159,680 | - | | | | |

* Or date of appointment/retirement as appropriate

(1) Alan Parker received an award of 27901 shares on 1 March 2011. This award will vest on 1 March 2014

The awards are not subject to performance conditions and will vest in full on the release date subject to the director remaining an employee of Whitbread at that date. If the director ceases to be an employee of Whitbread prior to the release date by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the Remuneration Committee the awards will be released in full. If the director ceases to be an employee of Whitbread for any other reason the proportion of award which vests depends upon the year in which the award was made and the date the director ceases to be an employee. If the director leaves within the first year after an award is made none of the award vests, between the first and second anniversary 25% vests and between the second and third anniversary 50% vests.

Remuneration report

Share Options (audited information)

The Remuneration Committee currently does not intend to grant any further executive options and no director has any executive option outstanding. Executive directors may participate in the Company's Savings-related Share Option Scheme which is open to all employees on the same terms.

The exercise periods shown below are the normal exercise periods at the date of grant. Actual exercise periods are subject to change in accordance with the rules of the schemes when a director ceases to be employed by the Company.

At 3 March 2011 the directors and previous executive directors held the following share options under the Savings-related Share Option Scheme, with the latest exercise date being July 2016. Savings-related share options have a six-month exercise period.

| | Number | Date of grant | Exercise price | Exercise date | Last exercise date |
|-------------------------------------|--------|-----------------------|----------------|---------------|--------------------|
| Patrick Dempsey | | | | | |
| Savings-related Share Option Scheme | 1 076 | 03/12/2010 | 1414 0p | February 2016 | July 2016 |
| Total number of shares under option | 1 076 | (2 129 at 04/03/2010) | | | |
| Christopher Rogers | | | | | |
| Savings-related Share Option Scheme | 1 076 | 03/12/2010 | 1414 0p | February 2016 | July 2016 |
| Total number of shares under option | 1,076 | (2,129 at 04/03/2010) | | | |
| Alan Parker | | | | | |
| Savings-related Share Option Scheme | 1 318 | 02/12/2008 | 728 0p | February 2012 | July 2012 |
| Total number of shares under option | 1 318 | (1,318 at 04/03/2010) | | | |

* As at the date of Alan Parker's retirement on 30 November 2010

Options exercised (audited information)

| Savings-related Share Option Scheme | | | | | | | | |
|-------------------------------------|---------------|----------------|--------------|----------------------------|---------------|------------------|----------------------------------|----------|
| | Date of grant | Number granted | Option price | Exercise period | Exercise date | Number exercised | Price on exercise ⁽¹⁾ | Gain (£) |
| Patrick Dempsey | 30/11/2005 | 2 129 | 756 0p | February 2011 to July 2011 | 01/02/2011 | 2 129 | 1734 6p | 20,834 |
| Christopher Rogers | 30/11/2005 | 2,129 | 756 0p | February 2011 to July 2011 | 01/02/2011 | 2 129 | 1734 6p | 20 834 |

The aggregate gain made by directors on the exercise of options was £41 668 (2009/10 £1,032,901)

(1) The price on exercise is either the actual price attained where the shares were sold on exercise, or the mid-market price on the day of exercise where the shares were retained.

Employee Share Ownership Trust (ESOT)

The Company funds an ESOT to enable it to acquire and hold shares for the LTIP, matching awards and the Whitbread Incentive Scheme. As at 27 April 2011, the ESOT held 904,321 shares. The executive directors each have a technical interest in these shares as potential beneficiaries of the trust but no shares in the trust are earmarked to any individuals. All dividends on shares in the ESOT are waived by the Trustee. During the period from 4 March 2011 to 27 April 2011, no director has exercised an option to call for the transfer of shares from the ESOT.

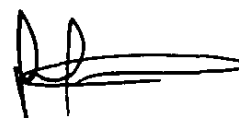
Share price information

The mid-market price of Whitbread ordinary shares on 3 March 2011 was 1708 0p (4 March 2010 1472 0p). The highest and lowest price paid for ordinary shares during the year were as 1887 0p and 1266 0p respectively.

Changes since 3 March 2011

There have been no changes in directors' interests in ordinary shares since 3 March 2011.

Signed and approved on behalf of the Board



Ian Cheshire
Chairman, Remuneration Committee

27 April 2011

Consolidated accounts 2010/11

| | | | |
|-------------------------------------------------------------------------------------------------------------------------|----|---------------------------------------------------------------------------------------------------------------|----|
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Directors' responsibility for the consolidated financial statements/audit report

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with applicable company law and those International Financial Reporting Standards (IFRSs) as adopted by the European Union

Under company law the directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the results and cash flows of the Group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the Group financial statements comply with IFRS subject to any material departures being disclosed and explained in the financial statements,
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in its business,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance

The directors are responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence, taking reasonable steps for the prevention and detection of fraud and other irregularities.

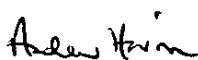
Responsibility statement

We confirm on behalf of the Board that, to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole, and
- the directors' report includes a fair review of the development and performance of the business and the position of the Group taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Andrew Harrison **Christopher Rogers**
Chief Executive Finance Director



Independent auditor's report to the members of Whitbread PLC

We have audited the Group financial statements of Whitbread PLC for the year ended 3 March 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out above, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of

significant accounting estimates made by the directors, and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications in our report.

Opinion on financial statements

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 3 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

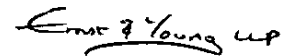
- Under the Companies Act 2006 we are required to report to you if, in our opinion:
 - certain disclosures of directors' remuneration specified by law are not made, or
 - we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 5, in relation to going concern, and
- the part of the Corporate Governance Statement on pages 26 to 30 in the Annual Report and Accounts 2010/11 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Whitbread PLC for the year ended 3 March 2011 and on the information in the directors' remuneration report that is described as having been audited.



Les Clifford
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 April 2011

Consolidated income statement

Year ended 3 March 2011

| | Notes | Year to 3 March 2011 £m | Year to 4 March 2010 £m |
|-------------------------------------------------------------|-------|-------------------------------|-------------------------------|
| Revenue | 3, 4 | 1,599.6 | 1,435.0 |
| Cost of sales | | (237.1) | (213.5) |
| Gross profit | | 1,362.5 | 1,221.5 |
| Distribution costs | | (886.6) | (830.3) |
| Administrative expenses | | (166.0) | (138.0) |
| Operating profit | 5 | 309.9 | 253.2 |
| Share of loss from joint ventures | 16 | (2.8) | (3.1) |
| Share of profit from associate | 17 | 0.8 | 0.7 |
| Operating profit of the Group, joint ventures and associate | 4 | 307.9 | 250.8 |
| Finance costs | 8 | (38.1) | (43.9) |
| Finance revenue | 8 | 1.4 | 1.1 |
| Profit before tax | | 271.2 | 208.0 |
| Analysed as | | | |
| Underlying profit before tax | | 287.1 | 239.1 |
| IAS 19 Income Statement charge for pension finance cost | 6 | (11.5) | (15.5) |
| Profit before tax and exceptional items | | 275.6 | 223.6 |
| Exceptional items | 6 | (4.4) | (15.6) |
| Profit before tax | | 271.2 | 208.0 |
| Underlying tax expense | | (83.7) | (71.1) |
| Exceptional tax and tax on non GAAP adjustment | 6 | 34.6 | 23.1 |
| Tax expense | 9 | (49.1) | (48.0) |
| Profit for the year | | 222.1 | 160.0 |
| Attributable to | | | |
| Parent shareholders | | 223.3 | 161.0 |
| Non-controlling interest | | (1.2) | (1.0) |
| | | 222.1 | 160.0 |
| Earnings per share (note 11) | | | |
| | | Year to 3 March 2011 p | Year to 4 March 2010 p |
| Earnings per share | | | |
| Basic for profit for the year | | 127.16 | 92.37 |
| Diluted for profit for the year | | 126.73 | 92.16 |
| Earnings per share before exceptional items | | | |
| Basic for profit for the year | | 111.79 | 90.53 |
| Diluted for profit for the year | | 111.41 | 90.33 |
| Underlying earnings per share | | | |
| Basic for profit for the year | | 116.52 | 96.95 |
| Diluted for profit for the year | | 116.12 | 96.74 |

Consolidated statement of comprehensive income
Year ended 3 March 2011

| | Notes | Year to 3 March 2011 £m | Year to 4 March 2010 £m |
|-----------------------------------------------------------|-------|-------------------------------|-------------------------------|
| Profit for the year | | 222.1 | 160.0 |
| Net gain on cash flow hedges | | 8.6 | 3.0 |
| Deferred tax | 9 | (2.4) | (0.8) |
| | | 6.2 | 2.2 |
| Actuarial losses on defined benefit pension schemes | 32 | (51.4) | (195.7) |
| Current tax | 9 | 10.9 | 28.6 |
| Deferred tax | 9 | 3.5 | 26.3 |
| | | (37.0) | (140.8) |
| Deferred tax change in rate of corporation tax | 9 | (3.7) | - |
| Exchange differences on translation of foreign operations | | (0.8) | (0.2) |
| Other comprehensive loss for the year, net of tax | | (35.3) | (138.8) |
| Total comprehensive profit for the year, net of tax | | 186.8 | 21.2 |
| Attributable to | | | |
| Parent shareholders | | 188.0 | 22.2 |
| Non-controlling interest | | (1.2) | (1.0) |
| | | 186.8 | 21.2 |

Consolidated statement of changes in equity
Year ended 3 March 2011

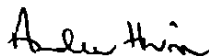
| | Share capital (note 28) £m | Share premium (note 29) £m | Capital redemption reserve (note 29) £m | Retained earnings (note 29) £m | Currency translation (note 29) £m | Treasury reserve (note 29) £m | Merger reserve (note 29) £m | Hedging reserve (note 29) £m | Total £m | Non-controlling interest £m | Total equity £m |
|--------------------------------------------|----------------------------------|----------------------------------|-----------------------------------------------|--------------------------------------|-----------------------------------------|-------------------------------------|-----------------------------------|------------------------------------|-------------|--------------------------------|--------------------|
| At 26 February 2009 | 145.3 | 46.1 | 12.3 | 3,038.8 | 5.3 | (226.3) | (1,855.0) | (38.7) | 1,127.8 | 0.7 | 1,128.5 |
| Profit for the year | - | - | - | 161.0 | - | - | - | - | 161.0 | (1.0) | 160.0 |
| Other comprehensive income | - | - | - | (141.6) | (0.2) | - | - | 3.0 | (138.8) | - | (138.8) |
| Total comprehensive income | - | - | - | 19.4 | (0.2) | - | - | 3.0 | 22.2 | (1.0) | 21.2 |
| Ordinary shares issued | 0.4 | 3.7 | - | - | - | - | - | - | 4.1 | - | 4.1 |
| Loss on ESOT shares issued to participants | - | - | - | (4.3) | - | 4.3 | - | - | - | - | - |
| Accrued share-based payments | - | - | - | 5.9 | - | - | - | - | 5.9 | - | 5.9 |
| Deferred tax on share-based payments | - | - | - | 0.9 | - | - | - | - | 0.9 | - | 0.9 |
| Equity dividends | - | - | - | (63.7) | - | - | - | - | (63.7) | - | (63.7) |
| Scrip dividends | 0.7 | (0.7) | - | 9.8 | - | - | - | - | 9.8 | - | 9.8 |
| Additions | - | - | - | - | - | - | - | - | - | 1.3 | 1.3 |
| At 4 March 2010 | 146.4 | 49.1 | 12.3 | 3,006.8 | 5.1 | (222.0) | (1,855.0) | (35.7) | 1,107.0 | 1.0 | 1,108.0 |
| Profit for the year | - | - | - | 223.3 | - | - | - | - | 223.3 | (1.2) | 222.1 |
| Other comprehensive income | - | - | - | (43.1) | (0.8) | - | - | 8.6 | (35.3) | - | (35.3) |
| Total comprehensive income | - | - | - | 180.2 | (0.8) | - | - | 8.6 | 188.0 | (1.2) | 186.8 |
| Ordinary shares issued | 0.2 | 2.1 | - | - | - | - | - | - | 2.3 | - | 2.3 |
| Cost of ESOT shares purchased | - | - | - | - | - | (5.1) | - | - | (5.1) | - | (5.1) |
| Loss on ESOT shares issued to participants | - | - | - | (6.2) | - | 6.2 | - | - | - | - | - |
| Accrued share-based payments | - | - | - | 7.7 | - | - | - | - | 7.7 | - | 7.7 |
| Deferred tax on share-based payments | - | - | - | 1.2 | - | - | - | - | 1.2 | - | 1.2 |
| Rate change on historic revaluation | - | - | - | 0.6 | - | - | - | - | 0.6 | - | 0.6 |
| Equity dividends | - | - | - | (69.4) | - | - | - | - | (69.4) | - | (69.4) |
| Scrip dividends | 0.4 | (0.4) | - | 7.9 | - | - | - | - | 7.9 | - | 7.9 |
| Additions | - | - | - | - | - | - | - | - | - | 2.0 | 2.0 |
| At 3 March 2011 | 147.0 | 50.8 | 12.3 | 3,128.8 | 4.3 | (220.9) | (1,855.0) | (27.1) | 1,240.2 | 1.8 | 1,242.0 |

Consolidated balance sheet

At 3 March 2011

| | Notes | 3 March 2011 £m | 4 March 2010 £m |
|-----------------------------------------------------|-------|-----------------------|-----------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 13 | 204.3 | 150.0 |
| Property, plant and equipment | 14 | 2,415.9 | 2,310.7 |
| Investment in joint ventures | 16 | 17.4 | 18.1 |
| Investment in associate | 17 | 1.4 | 1.2 |
| Trade and other receivables | 20 | 2.9 | - |
| Other financial assets | 18 | 0.9 | 0.9 |
| | | 2,642.8 | 2,480.9 |
| Current assets | | | |
| Inventories | 19 | 18.4 | 17.0 |
| Income tax recoverable | 9 | - | 6.5 |
| Trade and other receivables | 20 | 84.3 | 93.9 |
| Cash and cash equivalents | 21 | 38.2 | 47.0 |
| | | 140.9 | 164.4 |
| Assets held for sale | 14 | 4.0 | 2.3 |
| Total assets | | 2,787.7 | 2,647.6 |
| Liabilities | | | |
| Current liabilities | | | |
| Financial liabilities | 22 | 4.2 | 31.4 |
| Provisions | 24 | 15.4 | 21.4 |
| Derivative financial instruments | 26 | 16.3 | 18.9 |
| Income tax liabilities | 9 | 15.4 | - |
| Trade and other payables | 27 | 280.2 | 286.3 |
| | | 331.5 | 358.0 |
| Non-current liabilities | | | |
| Financial liabilities | 22 | 521.9 | 529.0 |
| Provisions | 24 | 29.8 | 32.4 |
| Derivative financial instruments | 26 | 16.6 | 17.2 |
| Deferred income tax liabilities | 9 | 142.7 | 160.8 |
| Pension liability | 32 | 488.0 | 434.0 |
| Trade and other payables | 27 | 15.2 | 8.2 |
| | | 1,214.2 | 1,181.6 |
| Total liabilities | | 1,545.7 | 1,539.6 |
| Net assets | | 1,242.0 | 1,108.0 |
| Equity | | | |
| Share capital | 28 | 147.0 | 146.4 |
| Share premium | 29 | 50.8 | 49.1 |
| Capital redemption reserve | 29 | 12.3 | 12.3 |
| Retained earnings | 29 | 3,128.8 | 3,006.8 |
| Currency translation reserve | 29 | 4.3 | 5.1 |
| Other reserves | 29 | (2,103.0) | (2,112.7) |
| Equity attributable to equity holders of the parent | | 1,240.2 | 1,107.0 |
| Non-controlling interest | | 1.8 | 1.0 |
| Total equity | | 1,242.0 | 1,108.0 |

Andrew Harrison
Chief Executive



Christopher Rogers
Finance Director



27 April 2011

Consolidated cash flow statement

Year ended 3 March 2011

| | Notes | Year to 3 March 2011 £m | Year to 4 March 2010 £m |
|----------------------------------------------------------------------------|--------|-------------------------------|-------------------------------|
| Profit for the year | | 222.1 | 160.0 |
| Adjustments for | | | |
| Taxation charged on total operations | 9 | 49.1 | 48.0 |
| Net finance cost | 8 | 36.7 | 42.8 |
| Total loss from joint ventures | 16 | 2.8 | 3.1 |
| Total income from associate | 17 | (0.8) | (0.7) |
| Loss on disposal of property, plant and equipment and property reversions | 6 | 0.4 | 6.6 |
| Loss on disposal of business | 6 | 2.4 | - |
| Depreciation and amortisation | 13, 14 | 101.2 | 95.9 |
| Impairments of property, plant and equipment and intangibles | 13, 14 | 4.6 | 1.5 |
| Pension curtailment | 32 | - | (4.0) |
| Reorganisation provision | | - | 1.3 |
| Share-based payments | 31 | 7.7 | 5.9 |
| Other non-cash items | | (0.1) | 8.0 |
| Cash generated from operations before working capital changes | | 426.1 | 368.4 |
| (Increase)/decrease in inventories | | - | 0.1 |
| Decrease/(increase) in trade and other receivables | | 8.8 | (21.6) |
| (Decrease)/increase in trade and other payables | | (10.2) | 39.7 |
| Payments against provisions | 24 | (9.5) | (10.8) |
| Pension payments | 32 | (8.9) | (6.0) |
| Cash generated from operations | | 406.3 | 369.8 |
| Interest paid | | (25.7) | (26.9) |
| Taxes paid | | (34.5) | (51.6) |
| Net cash flows from operating activities | | 346.1 | 291.3 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (199.6) | (127.1) |
| Purchase of intangible assets | 13 | (2.6) | (4.6) |
| Proceeds from disposal of property, plant and equipment | | 3.1 | 41.8 |
| Business combinations, net of cash acquired | 10 | (59.5) | (38.8) |
| Capital contributions and loans to joint ventures | | (3.4) | (3.2) |
| Dividends from associate | | 0.6 | 0.7 |
| Interest received | | 1.4 | 0.3 |
| Net cash flows from investing activities | | (260.0) | (130.9) |
| Cash flows from financing activities | | | |
| Proceeds from issue of share capital | | 2.3 | 4.1 |
| Costs of purchasing ESOT shares | | (5.1) | - |
| (Decrease)/increase in short-term borrowings | | (25.5) | 25.5 |
| Proceeds from long-term borrowings | | 101.8 | - |
| Repayments of long-term borrowings | | (104.1) | (137.1) |
| Issue costs of long-term borrowings | | (1.1) | - |
| Dividends paid | 12 | (61.5) | (53.9) |
| Net cash flows used in financing activities | | (93.2) | (161.4) |
| Net decrease in cash and cash equivalents | | (7.1) | (1.0) |
| Opening cash and cash equivalents | | 41.5 | 42.7 |
| Foreign exchange differences | | (0.2) | (0.2) |
| Closing cash and cash equivalents | | 34.2 | 41.5 |
| Reconciliation to cash and cash equivalents in the balance sheet | | | |
| Cash and cash equivalents shown above | | 34.2 | 41.5 |
| Add back overdrafts | | 4.0 | 5.5 |
| Cash and cash equivalents shown within current assets on the balance sheet | | 38.2 | 47.0 |

Notes to the consolidated financial statements

At 3 March 2011

1 Authorisation of financial statements

The consolidated financial statements of Whitbread PLC for the year ended 3 March 2011 were authorised for issue by the Board of Directors on 27 April 2011. Whitbread PLC is a public limited company incorporated and fully domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The significant activities of the Group are described in note 4, segment information.

2 Accounting policies

Basis of accounting and preparation

The consolidated financial statements of Whitbread PLC and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except when otherwise indicated. The significant accounting policies adopted are set out below.

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 4 March 2010, except for the adoption of the following new Standards and Interpretations that are applicable for the year ended 3 March 2011.

IFRS 2 Share-based Payment – Amendments to Group Cash-settled Share-based Payments

The amended standard affects the accounting for cash-settled share-based payment transactions. This amendment supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (revised)

The amended standard introduces changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.

IAS 27 Consolidated and Separate Financial Statements (amended)

IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses by the subsidiary as well as the loss of control of a subsidiary. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 32 Financial Instruments Presentation – Classification of Rights Issues (amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's own non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in currency. This amendment had no impact on the Group.

IAS 39 Financial Instruments Amendments to Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. This interpretation has had no impact on the Group.

Basis of consolidation

The consolidated financial statements incorporate the accounts of Whitbread PLC and all its subsidiaries, together with the Group's share of the net assets and results of joint ventures and associates incorporated using the equity method of accounting. These are adjusted, where appropriate, to conform to Group accounting policies. The financial statements of material subsidiaries are prepared for the same reporting year as the parent Company.

Apart from the acquisition of Whitbread Group PLC by Whitbread PLC in 2000/1, which was accounted for using merger accounting, acquisitions by the Group are accounted for under the acquisition method and any goodwill arising is capitalised as an intangible asset. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from or up to the date that control passes respectively. All intra-Group transactions, balances, income and expenses are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Notes to the consolidated financial statements

At 3 March 2011

2 Accounting policies (continued)

Significant accounting policies

Goodwill

Goodwill arising on acquisition is capitalised and represents the excess of the fair value of consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Amortisation is calculated on a straight-line basis over the estimated life of the asset as follows:

- Trading licences have an infinite life
- Brand assets are amortised over periods of two to 15 years
- IT software and technology are amortised over periods of three to 10 years
- The asset in relation to acquired customer relationships is amortised over 10 years
- The franchise fee and brand name agreements are amortised over periods up to 15 years

Amortisation is reported within administrative expenses in the income statement. The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.

Property, plant and equipment

Prior to the 1999/2000 financial year, properties were regularly revalued on a cyclical basis. Since this date the Group policy has been not to revalue its properties and, while previous valuations have been retained, they have not been updated. As permitted by IFRS 1, the Group has elected to use the UK GAAP revaluations before the date of transition to IFRS as deemed cost at the date of transition. Property, plant and equipment are stated at cost or deemed cost at transition to IFRS, less accumulated depreciation and any impairment in value. Gross interest costs incurred on the financing of qualifying assets are capitalised until the time that the projects are available for use. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Freehold land is not depreciated
- Freehold buildings are depreciated to their estimated residual values over periods up to 50 years
- Plant and equipment is depreciated over three to 30 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that their carrying values may not be recoverable. Any impairment in the value of property, plant and equipment is charged to the income statement.

Profits and losses on disposal of property, plant and equipment reflect the difference between net selling price and the carrying amount at the date of disposal and are recognised in the income statement.

Payments made on entering into or acquiring leaseholds that are accounted for as operating leases represent prepaid lease payments. These are amortised on a straight-line basis over the lease term.

Impairment

The Group assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units or CGUs). If such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of the recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the CGU's recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2 Accounting policies (continued)

Impairment (continued)

The recoverable amount of an asset or CGU is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined with reference to the CGU to which the asset belongs. Impairment losses are recognised in the income statement in the administrative and distribution line items.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis.

For the purposes of impairment testing, all centrally held assets are allocated in line with IAS 36 to CGUs based on management's view of the consumption of the asset. Any resulting impairment is recorded against the centrally held asset.

Goodwill and intangibles

Goodwill acquired through business combinations is allocated to groups of CGUs at the level management monitor goodwill, which is at strategic business unit level. The Group performs an annual review of its goodwill to ensure that its carrying amount is not greater than its recoverable amount. In the absence of a comparable recent market transaction that demonstrates that the fair value less costs to sell of goodwill and intangible assets exceeds their carrying amount, the recoverable amount is determined from value in use calculations. An impairment is then made to reduce the carrying amount to the higher of the fair value less cost to sell and the value in use.

Property, plant and equipment

For the purposes of the impairment review of property, plant and equipment the Group considers CGUs to be each trading outlet.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Consideration is also given, where appropriate, to the market value of the asset, either from independent sources or in conjunction with an accepted industry valuation methodology.

Assets held for sale

Non-current assets and disposal groups are classified as held for sale only if available for immediate sale in their present condition and a sale is highly probable and expected to be completed within one year from the date of classification. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated or amortised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the basis of first in, first out and net realisable value is the estimated selling price less any costs of disposal.

Provisions

Provisions for warranties, onerous contracts and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Provisions are discounted to present value, where the effect is material, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Non GAAP performance measure

The face of the income statement presents underlying profit before tax and reconciles this to profit before tax as required to be presented under the applicable accounting standards. Underlying earnings per share is calculated having adjusted profit after tax on the same basis. The term underlying profit is not defined under IFRSs and may not be comparable with similarly titled profit measures reported by other companies. It is not intended to be a substitute for, or superior to, GAAP measurements of profit. The adjustments made to reported profit in the income statement in order to present an underlying performance measure include:

Exceptional items

The Group includes in non GAAP performance measures those items which are exceptional by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group also includes the profit or loss on disposal of property, plant and equipment, property reversions, profit or loss on sale of business, impairment and exceptional interest and tax.

IAS 19 Income Statement finance charge/credit for defined benefit pension schemes

Underlying profit includes the service costs but excludes the volatile finance cost/revenue element of IAS 19.

Notes to the consolidated financial statements

At 3 March 2011

2 Accounting policies (continued)

Taxation

The tax impact of the above items is also excluded in arriving at underlying earnings

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange quoted at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions.

Trading results are translated into the functional currency (generally sterling) at average rates of exchange for the year. Day to day transactions in a foreign currency are recorded in the functional currency at an average rate for the month in which those transactions take place, which is used as a reasonable approximation to the actual transaction rate. Translation differences on monetary items are taken to the income statement except where they are part of a net foreign investment hedge, in which case translation differences are reported in other comprehensive income. The differences that arise from translating the results of foreign entities at average rates of exchange, and their assets and liabilities at closing rates, are also dealt with in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement. All other currency gains and losses are dealt with in the income statement.

A number of subsidiaries within the Group have a non sterling functional currency. These are translated into sterling in the Group accounts. Balance sheet items are translated at the rate applicable at the balance sheet date. Transactions reported in the income statement are translated using an average rate for the month in which they occur.

Revenue recognition

Generally, revenue is the value of goods and services sold to third parties as part of the Group's trading activities, after deducting discounts and sales-based taxes. The following is a description of the composition of revenues of the Group.

Rendering of services

Owned hotel revenue, including the rental of rooms and food and beverage sales from a network of hotels, is recognised when rooms are occupied and food and beverages are sold. Revenue from franchise fees received in connection with the franchise of the Group's brand names is recognised when earned.

Royalties

Royalties are recognised as the income is earned.

Sale of goods

Revenue from the sale of food and beverages is recognised when they are sold. Under IFRIC 13, a portion of revenue equal to the fair value of the reward points earned under Costa loyalty card transactions is deferred until those points are redeemed.

Finance revenue

Interest income is recognised as the interest accrues, using the effective interest method.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental payments in respect of operating leases are charged against operating profit on a straight-line basis over the period of the lease. Lease incentives are recognised as a reduction of rental costs over the lease term.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except for gross interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

Retirement benefits

In respect of defined benefit pension schemes, the obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for any unrecognised past service cost, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur in the Consolidated Statement of Comprehensive Income.

For defined benefit plans, the employer's portion of the past and current service cost is charged to operating profit, with the interest cost net of expected return on assets in the plans reported within finance costs. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

Curtailments and settlements relating to the Group's defined benefit plan are recognised in the period in which the curtailment or settlement occurs.

Payments to defined contribution pension schemes are charged as an expense as they fall due.

2 Accounting policies (continued)

Share-based payment transactions

Equity-settled transactions

Certain employees and directors of the Group receive equity-settled remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value, determined using a stochastic model, at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions or non-vesting conditions are fulfilled, ending on the relevant vesting date. Except for awards subject to market related conditions for vesting, the cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired, and is adjusted to reflect the directors' best available estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. If options are subject to market related conditions, awards are not cumulatively adjusted for the likelihood of these targets being met. Instead these conditions are included in the fair value of the awards.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

Cash-settled transactions

The cost is fair valued at grant date and expensed over the period until the vesting date with a recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in profit or loss for the period.

Tax

The income tax charge represents both the income tax payable, based on profits for the year, and deferred income tax.

Deferred income tax is recognised in full, using the liability method, in respect of temporary differences between the tax base of the Group's assets and liabilities, and their carrying amounts, that have originated but have not been reversed by the balance sheet date. No deferred tax is recognised if the temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax is recognised in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited to other comprehensive income if it relates to items charged or credited to other comprehensive income. Similarly income tax is charged or credited directly to equity if it relates to items that are charged or credited to equity. Otherwise income tax is recognised in the income statement.

Treasury shares

Own equity instruments which are held by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Investments in joint ventures and associates

Joint ventures are established through an interest in a company (a jointly controlled entity).

Investments in joint ventures and associates are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments in joint ventures and associates are accounted for using the equity method.

Recognition and derecognition of financial assets and liabilities

The recognition of financial assets and liabilities occurs when the Group becomes party to the contractual provisions of the instrument. The derecognition of financial assets takes place when the Group no longer has the right to cash flows, the risks and rewards of ownership, or control of the asset. The derecognition of financial liabilities occurs when the obligation under the liability is discharged, cancelled or expires.

Financial Assets

Financial assets at fair value through profit or loss

Some assets held by the Group are classified as financial assets at fair value through profit or loss. On initial recognition these assets are recognised at fair value. Subsequent measurement is also at fair value with changes recognised through finance revenue or costs in the income statement.

Notes to the consolidated financial statements

At 3 March 2011

2 Accounting policies (continued)

Financial Assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available-for-sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables are recognised and carried at original invoice amount less any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Derivative financial instruments

The Group enters into derivative transactions with a view to managing interest risks associated with underlying business activities and the financing of those activities. Derivative financial instruments used by the Group are stated at fair value on initial recognition and at subsequent balance sheet dates. Cash flow hedges hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. Fair value hedges hedge exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment and include foreign currency swaps.

Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Group's risk management objective strategy for undertaking the hedge and it is expected to be highly effective.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The portion of any gains or losses of cash flow hedges, which meet the conditions for hedge accounting and are determined to be effective hedges, is recognised directly in the Consolidated Statement of Comprehensive Income. The gains or losses relating to the ineffective portion are recognised immediately in the income statement. The change in fair value of a fair value hedging derivative is recognised in the income statement in finance costs. The change in the fair value of the hedged asset or liability, that is attributable to the hedged risk, is recognised in the carrying value of the hedged item and is also recognised in the income statement within finance costs.

When a firm commitment that is hedged becomes an asset or a liability recognised on the balance sheet, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the transaction that results from a firm commitment that is hedged affects the income statement.

Gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. When a fair value hedge item is derecognised, the unamortised fair value is recognised immediately in the income statement.

Borrowings

Borrowings are initially recognised at fair value of the consideration received net of any directly associated issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount initially recorded and the redemption value recognised in the income statement using the effective interest method.

Significant accounting judgements and estimates

Key assumptions concerning the future, and other key sources of estimation, at the balance sheet date have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The main assumptions are outlined below.

Judgements and estimates are required in the identification of separable assets and liabilities upon acquisition, particularly in the case of the valuation and identification of intangible assets such as brand, technology and customer databases. Note 10 provides details of business combinations in the current year.

2 Accounting policies (continued)

Significant accounting judgements and estimates (continued)

An impairment test of tangible and intangible assets is undertaken each year on both an EBITDA multiple approach and a discounted cash flow approach. Note 15 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions.

Judgement is used in determining the value of provisions carried for onerous contracts. This is primarily based around assumptions on rent and property related costs for the period the property is vacant and then assumptions over future rental incomes or potential reverse lease premiums paid. Note 24 provides details of the value of the provision carried.

Defined benefit pension plans are accounted for in accordance with actuarial advice using the projected unit credit method. Note 32 describes the assumptions used together with an analysis of the sensitivity to changes in key assumptions.

The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority. The final resolution of certain of these items may give rise to material income statement and/or cash flow variances.

Corporation tax is calculated on the basis of income before taxation, taking into account the relevant local tax rates and regulations. For each operating entity, the current income tax expense is calculated and differences between the accounting and tax base are determined, resulting in deferred tax assets or liabilities.

Assumptions are also made around the assets which qualify for capital allowances and the level of disallowable expenses and this affects the income tax calculation. Provisions are also made for uncertain exposures which can have an impact on both deferred and current tax.

A deferred tax asset shall be recognised for the carry forward of unused tax losses, pension deficits and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Detailed amounts of the carrying values of corporation and deferred tax can be found in note 9.

Standards issued by the International Accounting Standards Board (IASB) not effective for the current year and not early adopted by the Group.

The following standards and interpretations, which have been issued by the IASB and are relevant for the Group, become effective after the current year end and have not been early adopted by the Group.

IAS 24 Related Party Disclosures (Amendment)

The amended standard clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The Group does not expect any impact on its financial position or performance.

IFRS 9 Financial Instruments Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment provides guidance on assessing the recoverable amount of a net pension asset. It permits an entity to treat the prepayment of a minimum funding requirement as an asset. The adoption of this interpretation will have no effect on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

3 Revenue

An analysis of the Group's revenue is as follows:

| | 2010/11 £m | 2009/10 £m |
|-----------------------|---------------|---------------|
| Rendering of services | 698.6 | 629.8 |
| Royalties | 16.2 | 12.6 |
| Sale of goods | 884.8 | 792.6 |
| Revenue | 1,599.6 | 1,435.0 |

Notes to the consolidated financial statements At 3 March 2011

4 Segment information

For management purposes, the Group is organised into two strategic business units (Hotels & Restaurants and Costa) based upon their different products and services

- Hotels & Restaurants provide services in relation to accommodation and food
- Costa generates income from the operation of its branded, owned and franchised coffee shops

No operating segments have been aggregated to form the above reportable operating segments

Management monitors the operating results of its strategic business units separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on operating profit before exceptional items. Included within the unallocated and elimination columns in the tables below are the costs of running the public company. The unallocated assets and liabilities are cash and debt balances (held and controlled by the central treasury function), taxation, pensions, certain property, plant and equipment and central working capital balances.

Inter-segment revenue is from Costa to the Hotels & Restaurants segment and is eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 3 March 2011 and 4 March 2010.

| Year ended 3 March 2011 | Hotels & Restaurants £m | Costa £m | Unallocated and elimination £m | Total operations £m |
|-------------------------------------------------------------------------------|----------------------------|-------------|-----------------------------------|------------------------|
| Revenue | | | | |
| Revenue from external customers | 1,177.3 | 422.3 | - | 1,599.6 |
| Inter-segment revenue | - | 2.7 | (2.7) | - |
| Total revenue | 1,177.3 | 425.0 | (2.7) | 1,599.6 |
| Operating profit before exceptional items | 283.4 | 50.1 | (22.1) | 311.4 |
| Exceptional items | | | | |
| Refund of VAT on gaming machine income | 4.6 | - | - | 4.6 |
| Net loss on disposal of property, plant and equipment and property reversions | - | (0.4) | - | (0.4) |
| Impairment | (12.3) | (1.5) | - | (13.8) |
| Impairment reversal | 7.9 | 1.3 | - | 9.2 |
| Share of impairment of assets in joint ventures | - | (0.7) | - | (0.7) |
| Sale of business | - | (2.4) | - | (2.4) |
| Operating profit of the Group | 283.6 | 46.4 | (22.1) | 307.9 |
| Net finance costs | | | | (36.7) |
| Profit before tax | | | | 271.2 |
| Tax expense | | | | (49.1) |
| Profit for the year | | | | 222.1 |
| Assets and liabilities | | | | |
| Segment assets | 2,473.6 | 230.5 | - | 2,704.1 |
| Unallocated assets | - | - | 83.6 | 83.6 |
| Total assets | 2,473.6 | 230.5 | 83.6 | 2,787.7 |
| Segment liabilities | (175.4) | (52.2) | - | (227.6) |
| Unallocated liabilities | - | - | (1,318.1) | (1,318.1) |
| Total liabilities | (175.4) | (52.2) | (1,318.1) | (1,545.7) |
| Net assets | 2,298.2 | 178.3 | (1,234.5) | 1,242.0 |
| Other segment information | | | | |
| Income from associate | 0.8 | - | - | 0.8 |
| Loss from joint ventures | (0.5) | (2.3) | - | (2.8) |
| Capital expenditure | | | | |
| Property, plant and equipment - cash basis | 168.6 | 31.0 | - | 199.6 |
| Property, plant and equipment - accruals basis | 177.4 | 30.2 | - | 207.6 |
| Intangible assets | 0.6 | 2.0 | - | 2.6 |
| Depreciation | (77.9) | (20.3) | (0.1) | (98.3) |
| Amortisation | (1.8) | (1.1) | - | (2.9) |

4 Segment information (continued)

| Year ended 4 March 2010 | Hotels & Restaurants £m | Costa £m | Unallocated and elimination £m | Total operations £m |
|-----------------------------------------------------------------------------------------|-------------------------------|---------------|--------------------------------------|---------------------------|
| Revenue | | | | |
| Revenue from external customers | 1,096.0 | 339.0 | - | 1,435.0 |
| Inter-segment revenue | - | 1.9 | (1.9) | - |
| Total revenue | 1,096.0 | 340.9 | (1.9) | 1,435.0 |
| Operating profit before exceptional items | 247.0 | 36.2 | (18.4) | 264.8 |
| Exceptional items | | | | |
| Pension curtailment | - | - | 4.0 | 4.0 |
| Net gain/(loss) on disposal of property, plant and equipment and property reversions | 14.5 | (0.4) | (20.7) | (6.6) |
| Reorganisation | - | - | (9.9) | (9.9) |
| Impairment | (10.7) | (0.6) | - | (11.3) |
| Impairment reversal | 9.1 | 0.7 | - | 9.8 |
| Operating profit of the Group | 259.9 | 35.9 | (45.0) | 250.8 |
| Net finance costs | | | | (42.8) |
| Profit before tax | | | | 208.0 |
| Tax expense | | | | (48.0) |
| Profit for the year | | | | 160.0 |
| Assets and liabilities | | | | |
| Segment assets | 2,393.9 | 155.3 | - | 2,549.2 |
| Unallocated assets | - | - | 98.4 | 98.4 |
| Total assets | 2,393.9 | 155.3 | 98.4 | 2,647.6 |
| Segment liabilities | (127.5) | (56.7) | - | (184.2) |
| Unallocated liabilities | - | - | (1,355.4) | (1,355.4) |
| Total liabilities | (127.5) | (56.7) | (1,355.4) | (1,539.6) |
| Net assets | 2,266.4 | 98.6 | (1,257.0) | 1,108.0 |
| Other segment information | | | | |
| Income from associate | 0.7 | - | - | 0.7 |
| Loss from joint ventures | (2.2) | (0.9) | - | (3.1) |
| Capital expenditure | | | | |
| Property, plant and equipment - cash basis | 111.6 | 15.2 | 0.3 | 127.1 |
| Property, plant and equipment - accruals basis | 106.6 | 17.3 | 0.1 | 124.0 |
| Intangible assets | 2.6 | 2.0 | - | 4.6 |
| Depreciation | (74.6) | (17.4) | - | (92.0) |
| Amortisation | (3.5) | (0.4) | - | (3.9) |

Revenues from external customers are split geographically as follows

| | 2010/11 £m | 2009/10 £m |
|--------------------|----------------|----------------|
| United Kingdom* | 1,582.1 | 1,421.4 |
| Non United Kingdom | 17.5 | 13.6 |
| | 1,599.6 | 1,435.0 |

*United Kingdom revenue is revenue where the source of the supply is the United Kingdom. This includes Costa franchise income invoiced from the UK

Non-current assets** are split geographically as follows

| | 2011 £m | 2010 £m |
|--------------------|----------------|----------------|
| United Kingdom | 2,610.9 | 2,457.4 |
| Non United Kingdom | 31.0 | 22.6 |
| | 2,641.9 | 2,480.0 |

**Non-current assets exclude financial assets

Notes to the consolidated financial statements

At 3 March 2011

5 Group operating profit

This is stated after charging/(crediting)

| | 2010/11 £m | 2009/10 £m |
|-----------------------------------------------------------------|---------------|---------------|
| Property operating lease payments | | |
| Minimum lease payments recognised as an operating lease expense | | |
| Minimum lease payments attributable to the current period | 95.4 | 78.6 |
| IAS 17 - impact of future minimum rental uplifts | 4.8 | 2.8 |
| Contingent rents | 6.2 | 6.3 |
| Total property rent | 106.4 | 87.7 |
| Plant and machinery operating lease payments | 7.8 | 8.2 |
| Operating lease payments | 114.2 | 95.9 |
| Operating lease payments - sublease receipts | (1.2) | (1.5) |
| Amortisation of intangible assets (note 13) | 2.9 | 3.9 |
| Depreciation of property, plant and equipment (note 14) | 98.3 | 92.0 |
| Cost of inventories recognised as an expense | 207.5 | 212.7 |
| Employee benefits expense (note 7) | 437.9 | 409.8 |
| Net foreign exchange differences | 0.1 | 0.2 |
| Principal auditor's fees | | |
| Audit of the Group financial statements | 0.3 | 0.5 |
| Other fees to auditors | | |
| Auditing the accounts of subsidiaries | 0.2 | 0.1 |
| All other services | 0.2 | 0.1 |
| | 0.7 | 0.7 |

6 Exceptional items and other non GAAP adjustments

| | 2010/11 £m | 2009/10 £m |
|---------------------------------------------------------------------------------------------------------|---------------|---------------|
| Exceptional items before tax and interest | | |
| Revenue | | |
| Refund of VAT on gaming machine income ¹ | 4.6 | - |
| Distribution costs | | |
| Net loss on disposal of property, plant and equipment, and property reversions ² | (0.4) | (6.6) |
| Impairment of property, plant and equipment (note 15) | (13.0) | (11.3) |
| Impairment reversal (note 15) | 9.2 | 9.8 |
| | (4.2) | (8.1) |
| Administrative expenses | | |
| Impairment of other intangibles (note 15) | (0.8) | - |
| Sale of businesses ³ | (2.4) | - |
| Pension curtailment ⁴ | - | 4.0 |
| Reorganisation costs ⁵ | - | (9.9) |
| | (3.2) | (5.9) |
| Share of impairment of fixed assets in joint ventures ⁶ | (0.7) | - |
| | (3.5) | (14.0) |
| Exceptional interest | | |
| Interest on VAT refunded ¹ | 0.7 | - |
| Interest on exceptional tax ⁷ | (0.7) | (0.7) |
| Movement in discount on provisions ⁸ | (0.9) | (0.9) |
| | (0.9) | (1.6) |
| Exceptional items before tax | (4.4) | (15.6) |
| Other non GAAP adjustments made to underlying profit before tax to arrive at reported profit before tax | | |
| IAS 19 Income Statement charge for pension finance cost | (11.5) | (15.5) |
| Items included in reported profit before tax, but excluded in arriving at underlying profit before tax | (15.9) | (31.1) |

6 Exceptional items and other non GAAP adjustments (continued)

| Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax | 2010/11 £m | 2009/10 £m |
|----------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Tax on continuing exceptional items | (1.3) | 2.0 |
| Exceptional tax items – capital allowances claims ⁹ | 7.6 | – |
| Exceptional tax items – rolled over gains ¹⁰ | 16.7 | 16.8 |
| Deferred tax relating to UK tax rate change | 8.4 | – |
| Tax on non GAAP adjustment | 3.2 | 4.3 |
| | 34.6 | 23.1 |

- The £4.6m of VAT refunded had previously been charged on income from gaming machines operated in the restaurants of the Group. HMRC refunded the amount paid plus accrued interest of £0.7m, on the basis of a ruling that VAT may not be applicable on certain types of gaming machine income. HMRC continues to appeal the ruling but the Group does not consider it probable that an appeal will be successful. Accordingly no provision for repayment has been made although a contingent liability is disclosed in note 30.*
- During the year a net loss of £0.4m was recognised on disposals of property, plant and equipment.*
- Following a strategic review the Bulgarian and Czech businesses acquired as part of the Coffeeheaven acquisition have been disposed of as going concerns.*
- The pension curtailment credit arose due to the closure of the defined benefit scheme to future accrual on 31 December 2009 (note 32).*
- In 2007/8 the Group sold its interests in David Lloyd Leisure Limited and TGI Friday's. Following these disposals it was announced that the Restaurant and Hotels divisions would merge and that the shared service teams would be disbanded. This restructuring included the final costs associated with the aligning of IT with the new structures. This then completed the income statement impact of the restructuring programme that was announced in 2007/8.*
- An impairment review of the Costa operating stores in Russia resulted in an impairment of 74.1m Roubles. This is a joint venture partnership and hence the Group has incurred a joint venture exceptional loss of £0.7m.*
- The interest arising on late payment of an item claimed in a previous year which is disputed, is included in exceptional interest charges.*
- The interest arising from the unwinding of the discount rate within provisions is included in exceptional interest, reflecting the exceptional nature of the provisions created.*
- Following the abolition of Industrial Buildings Allowances for hotel buildings the Group has reviewed and resubmitted prior year capital allowance claims.*
- Reduction in deferred tax liability on rolled over gains for differences between the tax deductible cost and accounts residual value of the reinvestment assets.*

7 Employee benefits expense

| | 2010/11 £m | 2009/10 £m |
|-----------------------|---------------|---------------|
| Wages and salaries | 407.1 | 377.5 |
| Social security costs | 26.8 | 25.0 |
| Pension costs | 4.0 | 7.3 |
| | 437.9 | 409.8 |

Included in wages and salaries is a share-based payments expense of £7.8m (2009/10 £5.9m), which arises from transactions accounted for as equity-settled and cash-settled share-based payments.

The average number of persons directly employed in the business segments on a full time equivalent basis was as follows:

| | 2010/11 No | 2009/10 No |
|----------------------|---------------|---------------|
| Hotels & Restaurants | 21,121 | 20,452 |
| Costa | 6,747 | 5,285 |
| Unallocated | 55 | 57 |
| Total operations | 27,923 | 25,794 |

Excluded from the above are employees of joint ventures and associated undertakings.

Details of directors' emoluments are disclosed in the Remuneration report on pages 11 to 18.

Notes to the consolidated financial statements

At 3 March 2011

8 Finance (costs)/revenue

| | 2010/11 £m | 2009/10 £m |
|------------------------------------------------------------------|---------------|---------------|
| Finance costs | | |
| Bank loans and overdrafts | (28.2) | (27.2) |
| Other loans | (0.3) | (0.1) |
| Interest capitalised | 2.8 | 0.5 |
| | (25.7) | (26.8) |
| Net pension finance cost (note 32) | (11.5) | (15.5) |
| Finance costs before exceptional items | (37.2) | (42.3) |
| Exceptional finance costs (note 6) | - | (0.7) |
| Movement in discount on provisions (note 6) | (0.9) | (0.9) |
| Total finance costs | (38.1) | (43.9) |
| Finance revenue | | |
| Bank interest receivable | 0.2 | 0.1 |
| Other interest receivable | 1.2 | 0.8 |
| | 1.4 | 0.9 |
| Impact of ineffective portion of cash flow and fair value hedges | - | 0.2 |
| Total finance revenue | 1.4 | 1.1 |

9 Taxation

| Consolidated income statement | 2010/11 £m | 2009/10 £m |
|-----------------------------------------------------------|---------------|---------------|
| Current tax | | |
| Current tax expense | 81.9 | 57.5 |
| Adjustments in respect of current tax of previous periods | (10.7) | (0.2) |
| | 71.2 | 57.3 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 1.8 | 4.4 |
| Adjustments in respect of previous periods | (15.5) | (13.7) |
| Change in UK tax rate to 27% | (8.4) | - |
| | (22.1) | (9.3) |
| Tax reported in the consolidated income statement | 49.1 | 48.0 |

| Consolidated statement of comprehensive income | 2010/11 £m | 2009/10 £m |
|------------------------------------------------|---------------|---------------|
| Current tax | | |
| Pensions | (10.9) | (28.6) |
| Deferred tax | | |
| Cash flow hedge | 2.4 | 0.8 |
| Pensions | (3.5) | (26.3) |
| Change in UK tax rate to 27% | 3.7 | - |
| Tax reported in other comprehensive income | (8.3) | (54.1) |

A reconciliation of the tax charge applicable to profit from operating activities before tax at the statutory tax rate to the actual tax charge at the Group's effective tax rate for the years ended 3 March 2011 and 4 March 2010 respectively is as follows

| | 2010/11 £m | 2009/10 £m |
|------------------------------------------------------------------------------|---------------|---------------|
| Profit before tax as reported in the consolidated income statement | 271.2 | 208.0 |
| Tax at current UK tax rate of 28.00% (2010 28.00%) | 76.0 | 58.2 |
| Effect of different tax rates in overseas companies | 1.9 | 1.2 |
| Effect of joint ventures and associate | 0.6 | 0.7 |
| Expenditure not allowable | 5.2 | 1.8 |
| Adjustments to tax expense in respect of previous years | (10.7) | (0.2) |
| Adjustments to deferred tax expense in respect of previous years | (2.9) | 3.1 |
| Exceptional adjustments to deferred tax expense in respect of previous years | (12.6) | (16.8) |
| Impact of change of tax rate on deferred tax balance | (8.4) | - |
| Tax expense reported in the consolidated income statement | 49.1 | 48.0 |

The corporation tax balance is a liability of £15.4m (2010 asset of £6.5m)

9 Taxation (continued)

Deferred tax

Deferred tax relates to the following

| | Consolidated balance sheet | | Consolidated income statement | |
|---------------------------------------------|-------------------------------|------------|----------------------------------|---------------|
| | 2011 £m | 2010 £m | 2010/11 £m | 2009/10 £m |
| Deferred tax liabilities | | | | |
| Accelerated capital allowances | 104.9 | 102.1 | (0.2) | 2.5 |
| Rolled over gains and property revaluations | 138.2 | 160.3 | (21.5) | (14.4) |
| Gross deferred tax liabilities | 243.1 | 262.4 | | |
| Deferred tax assets | | | | |
| Pensions | (93.7) | (93.0) | (0.7) | (1.4) |
| Other | (6.7) | (8.6) | 0.3 | 4.0 |
| Gross deferred tax assets | (100.4) | (101.6) | | |
| Deferred tax expense | | | (22.1) | (9.3) |
| Net deferred tax liability | 142.7 | 160.8 | | |

Total deferred tax liabilities released as a result of disposals during the year was £nil (2010 £0.1m)

As a result of the transaction referred to in note 32, a current tax benefit of £10.9m (2009/10 £28.6m) has been obtained in the current year. The deferred tax balance associated with the pension deficit has been adjusted to reflect this benefit.

Following the enactment of the Finance Act 2009, the Group considers that the receipts of unremitted earnings from overseas entities would be exempt from UK tax and therefore the temporary difference in relation to unremitted earnings is £nil.

Tax relief on total interest capitalised amounts to £0.8m (2010 £0.1m)

Factors affecting the tax charge for future years

In his budget of 22 June 2010, the Chancellor of the Exchequer announced a decrease in the rate of UK corporation tax from 28% to 24%, phased over a period from April 2011 to April 2014. An additional 1% reduction, with effect from April 2011, was announced in the budget of 23 March 2011. Further UK tax changes, subject to enactment, are a reduction from 1 April 2012 in the rate of the capital allowances applicable to plant and machinery and to integral features from 20% to 18% and from 10% to 8% respectively.

The Group's financial statements for the year ended 3 March 2011 reflect only those changes which had been enacted by the balance sheet date, namely the reduction from 28% to 27%, which was enacted in the Finance (No 2) Act 2010 and which applies from April 2011. In accordance with IFRSs, the remaining proposed changes will only be reflected in the financial statements ended on or after the date such changes have been 'substantively enacted'.

The additional 1% reduction in the rate of corporation tax, with effect from April 2011, was enacted on 29 March 2011 by virtue of the Provisional Collection of Taxes Act 1968. If the change had been enacted before the Group's balance sheet date, the effect would have been to reduce the deferred tax liability by £5.2m.

The effect of the subsequent reduction to 23%, if enacted, will be to reduce the deferred tax liability by a further £12.1m. The rate change will also impact the amount of the future cash tax payments to be made by the Group.

10 Business combinations

On 2 March 2011 Costa Limited acquired the entire issued share capital of Coffee Nation for a total cash consideration of £59.5m. Coffee Nation operates over 800 customer facing espresso based coffee vending machines.

Notes to the consolidated financial statements At 3 March 2011

10 Business combinations (continued)

The fair value of the identifiable assets and liabilities of the acquired businesses as at the date of acquisition, and the corresponding carrying amounts immediately before the acquisition were

| | Book value £m | Provisional fair value to Group £m |
|-------------------------------------------------------------|---------------------|---------------------------------------------|
| Property, plant and equipment (note 14) | 7.0 | 6.6 |
| Inventories | 1.7 | 1.6 |
| Trade and other receivables | 1.6 | 1.5 |
| Deferred tax asset | 1.1 | 1.1 |
| Trade and other payables | (2.3) | (2.8) |
| Net assets | 9.1 | 8.0 |
| Intangible assets in relation to the acquired brand name | | 0.5 |
| Intangible assets in relation to the acquired technology | | 8.0 |
| Intangible assets in relation to the customer relationships | | 5.9 |
| Deferred tax liability in relation to the above intangibles | | (3.9) |
| Goodwill arising on acquisition | | 41.0 |
| Total consideration | | 59.5 |
| Cash flow on acquisition | | |
| Cash paid | | (59.5) |
| Total cash outflow | | (59.5) |

Fair values are described as provisional due to the proximity of the acquisition date to the year end. The fair value adjustment to receivables has been made to bring the balance in line with what is deemed recoverable. Fair value adjustments to the remaining net assets have been made to bring the accounting in line with the Group's policies.

Acquisition related costs amounting to £0.9m are included within administrative expenses in the consolidated income statement and do not form a part of the above consideration.

Goodwill arising on the acquisition of Coffee Nation arises as a result of synergies from coupling the acquired technology and customer relationships in Coffee Nation with the Costa brand and the Mocha Italia blend of coffee.

From the date of acquisition, the Company acquired contributed £nil revenue and £nil profit to the net profit of the Group. If the acquisition had taken place at the beginning of the year, the profit before interest and taxation for the Group would have increased by £1.1m and the revenue would have increased by £24.3m.

Prior year business combinations

In 2009/10, two business combinations, the acquisition of Coffeeheaven Limited and 50.1% of Premier Inn India Private Limited, were effected for a total consideration of £42.7m paid in cash. Cash acquired totalled £3.9m and goodwill of £24.8m was recognised. There have been no adjustments to the provisional fair values allocated and disclosed in the financial statements of 2009/10. The fair and book value of assets acquired in 2009/10 were

| | Book value £m | Fair value to Group £m |
|---------------------------------------------------------------|---------------------|------------------------------|
| Property, plant and equipment (note 14) | 16.4 | 13.7 |
| Inventories | 0.6 | 0.6 |
| Cash | 5.4 | 5.4 |
| Trade and other receivables | 10.2 | 10.2 |
| Overdrafts and loans | (5.1) | (5.1) |
| Trade and other payables | (6.7) | (6.7) |
| Net assets | 20.8 | 18.1 |
| Intangible assets in relation to the acquired brand name | | 5.1 |
| Deferred tax liability in relation to the acquired brand name | | (1.0) |
| Existing investment in joint venture acquired | | (4.3) |
| | 20.8 | 17.9 |

11 Earnings per share

The basic earnings per share figures are calculated by dividing the net profit for the year attributable to ordinary shareholders, therefore before non-controlling interests, by the weighted average number of ordinary shares in issue during the year after deducting treasury shares and shares held by an independently managed employee share ownership trust (ESOT).

11 Earnings per share (continued)

The diluted earnings per share figures allow for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. Where the share price at the year end is lower than the option price the options become anti-dilutive and are excluded from the calculation. The number of such options was nil (2010 nil)

The numbers of shares used for the earnings per share calculations are as follows

| | 2010/11 million | 2009/10 million |
|----------------------------------------------------|--------------------|--------------------|
| Basic weighted average number of ordinary shares | 175.6 | 174.3 |
| Effect of dilution - share options | 0.6 | 0.4 |
| Diluted weighted average number of ordinary shares | 176.2 | 174.7 |

The total number of shares in issue at the year end, as used in the calculation of the basic weighted average number of ordinary shares, was 191.4m less 14.3m treasury shares held by Whitbread PLC and 0.9m held by the ESOT (2010 190.6m less 14.7m treasury shares held by Whitbread PLC and 0.5m held by the ESOT)

The profits used for the earnings per share calculations are as follows

| | 2010/11 £m | 2009/10 £m |
|----------------------------------------------------------------------------------|------------------|------------------|
| Profit for the year attributable to parent shareholders | 223.3 | 161.0 |
| Exceptional items - gross | 4.4 | 15.6 |
| Exceptional items - taxation | (31.4) | (18.8) |
| Profit for the year before exceptional items attributable to parent shareholders | 196.3 | 157.8 |
| Non GAAP adjustments - gross | 11.5 | 15.5 |
| Non GAAP adjustments - taxation | (3.2) | (4.3) |
| Underlying profit for the year attributable to parent shareholders | 204.6 | 169.0 |
| | 2010/11 pence | 2009/10 pence |
| Basic for profit for the year | 127.16 | 92.37 |
| Exceptional items - gross | 2.51 | 8.95 |
| Exceptional items - taxation | (17.88) | (10.79) |
| Basic for profit before exceptional items for the year | 111.79 | 90.53 |
| Non GAAP adjustments - gross | 6.55 | 8.89 |
| Non GAAP adjustments - taxation | (1.82) | (2.47) |
| Basic for underlying profit for the year | 116.52 | 96.95 |
| Diluted for profit for the year | 126.73 | 92.16 |
| Diluted for profit before exceptional items for the year | 111.41 | 90.33 |
| Diluted for underlying profit for the year | 116.12 | 96.74 |

12 Dividends paid and proposed

| | 2010/11 | | 2009/10 | |
|-------------------------------------------------|--------------------|-------------|--------------------|-------------|
| | pence per share | £m | pence per share | £m |
| Final dividend relating to the prior year | 28.35 | 49.7 | 26.90 | 46.7 |
| Settled via scrip issue (note 28) | | (1.7) | | (6.0) |
| Paid in the year | | 48.0 | | 40.7 |
| Interim dividend for the current year | 11.25 | 19.7 | 9.65 | 16.8 |
| Settled via scrip issue (note 28) | | (6.2) | | (3.8) |
| Paid in the year | | 13.5 | | 13.0 |
| Total equity dividends paid in the year | | 61.5 | | 53.7 |
| Dividends on other shares | | | | |
| B share dividend | 1.60 | - | 7.13 | 0.1 |
| C share dividend | 1.01 | - | 2.93 | 0.1 |
| | | - | | 0.2 |
| Total dividends paid | | 61.5 | | 53.9 |
| Proposed for approval at Annual General Meeting | | | | |
| Equity dividends on ordinary shares | | | | |
| Final dividend for the current year | 33.25 | 58.6 | 28.35 | 49.7 |

Notes to the consolidated financial statements

At 3 March 2011

13 Intangible assets

| | Goodwill £m | Brand £m | Customer relationships £m | IT software and technology £m | Other £m | Total £m |
|---------------------------------------|----------------|-------------|---------------------------------|----------------------------------------|-------------|--------------|
| Cost | | | | | | |
| At 26 February 2009 | 110.5 | – | – | 36.5 | 2.9 | 149.9 |
| Additions | – | – | – | 4.6 | – | 4.6 |
| Businesses acquired | 24.8 | 5.1 | – | – | – | 29.9 |
| Foreign currency adjustment | 0.5 | – | – | – | – | 0.5 |
| At 4 March 2010 | 135.8 | 5.1 | – | 41.1 | 2.9 | 184.9 |
| Additions | – | – | – | 2.6 | – | 2.6 |
| Businesses acquired | 41.0 | 0.5 | 5.9 | 8.0 | – | 55.4 |
| At 3 March 2011 | 176.8 | 5.6 | 5.9 | 51.7 | 2.9 | 242.9 |
| Amortisation and impairment | | | | | | |
| At 26 February 2009 | – | – | – | (30.3) | (0.7) | (31.0) |
| Amortisation during the year | – | – | – | (3.7) | (0.2) | (3.9) |
| At 4 March 2010 | – | – | – | (34.0) | (0.9) | (34.9) |
| Amortisation during the year | – | (0.4) | – | (2.3) | (0.2) | (2.9) |
| Impairment | – | – | – | – | (0.8) | (0.8) |
| At 3 March 2011 | – | (0.4) | – | (36.3) | (1.9) | (38.6) |
| Net book value at 3 March 2011 | 176.8 | 5.2 | 5.9 | 15.4 | 1.0 | 204.3 |
| Net book value at 4 March 2010 | 135.8 | 5.1 | – | 7.1 | 2.0 | 150.0 |

The carrying amount of goodwill allocated by segment is presented below

| | 2011 £m | 2010 £m |
|----------------------|------------|------------|
| Hotels & Restaurants | 112.6 | 112.6 |
| Costa | 64.2 | 23.2 |
| Total | 176.8 | 135.8 |

The carrying amount of goodwill at 3 March 2011 is comprised of £112.6m for Hotels & Restaurants and £64.2m for Costa. Additions during the year comprise £41.0m arising on the acquisition of Coffee Nation. The £41.0m of goodwill relating to additions in the year has been allocated for impairment testing purposes to the Costa CGU with £nil being allocated to the Hotels & Restaurants CGU. Both of these CGUs are also operating segments and represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The brand intangible asset arose with the acquisition of Coffeeheaven in the previous financial year and on the acquisition of Coffee Nation in this financial year. It is being amortised over a period of two to 15 years.

The customer relationships asset arose with the acquisition of Coffee Nation in this financial year. It is being amortised over a period of 10 years.

IT software and technology has been assessed as having finite lives and will be amortised under the straight-line method over periods ranging from three to 10 years from the date it became fully operational.

Other intangibles

Other intangibles comprise Costa overseas trading licences and the franchise fee and brand name agreements acquired with the Premier Lodge business.

The trading licences, which have a carrying value of £0.6m (2010: £0.6m), are deemed to have an infinite life as there is no time limit associated with them. The franchise fee and brand name agreements are being amortised over their estimated useful economic lives of periods up to 15 years.

Capital expenditure commitments

Capital expenditure commitments in relation to intangible assets at the year end amounted to £0.2m (2010: £nil).

14 Property, plant and equipment

| | Land and buildings £m | Plant and equipment £m | Total £m |
|----------------------------------------|-----------------------------|------------------------------|----------------|
| Cost | | | |
| At 26 February 2009 | 1,958.4 | 762.3 | 2,720.7 |
| Additions | 41.1 | 82.9 | 124.0 |
| Businesses acquired | 12.5 | 1.2 | 13.7 |
| Interest capitalised | 0.5 | – | 0.5 |
| Reclassified | 1.2 | (1.2) | – |
| Assets written off | (0.5) | (46.0) | (46.5) |
| Movements to held for sale in the year | (6.2) | (2.4) | (8.6) |
| Disposals | (26.7) | (8.8) | (35.5) |
| At 4 March 2010 | 1,980.3 | 788.0 | 2,768.3 |
| Additions | 99.5 | 108.1 | 207.6 |
| Businesses acquired (note 10) | – | 6.6 | 6.6 |
| Interest capitalised | 2.8 | – | 2.8 |
| Reclassified | 0.3 | (0.3) | – |
| Assets written off | (0.8) | (55.8) | (56.6) |
| Foreign currency adjustment | (0.5) | (0.4) | (0.9) |
| Movements to held for sale in the year | (5.0) | (1.9) | (6.9) |
| Disposals | (2.4) | (1.8) | (4.2) |
| At 3 March 2011 | 2,074.2 | 842.5 | 2,916.7 |
| Depreciation and impairment | | | |
| At 26 February 2009 | (153.7) | (265.9) | (419.6) |
| Depreciation charge for the year | (12.9) | (79.1) | (92.0) |
| Impairment (note 15) | (1.0) | 0.1 | (0.9) |
| Depreciation written off | – | 41.2 | 41.2 |
| Foreign currency adjustment | 0.6 | (0.6) | – |
| Movements to held for sale in the year | 2.0 | 1.6 | 3.6 |
| Disposals | 3.9 | 6.2 | 10.1 |
| At 4 March 2010 | (161.1) | (296.5) | (457.6) |
| Depreciation charge for the year | (18.6) | (79.7) | (98.3) |
| Impairment (note 15) | (1.8) | (1.6) | (3.4) |
| Depreciation written off | 0.3 | 52.2 | 52.5 |
| Foreign currency adjustment | 0.1 | 0.1 | 0.2 |
| Movements to held for sale in the year | 2.5 | 1.2 | 3.7 |
| Disposals | 1.1 | 1.0 | 2.1 |
| At 3 March 2011 | (177.5) | (323.3) | (500.8) |
| Net book value at 3 March 2011 | 1,896.7 | 519.2 | 2,415.9 |
| Net book value at 4 March 2010 | 1,819.2 | 491.5 | 2,310.7 |
| Capital expenditure commitments | | 2011 £m | 2010 £m |

Capital expenditure commitments for property, plant and equipment for which no provision has been made

63.9 **41.9**

In addition to the capital expenditure commitments disclosed above, the Group has also signed agreements with certain third parties to develop new trading outlets within the Hotels & Restaurants strategic business unit. These developments are dependent on the outcome of future events such as the granting of planning permission, and consequently do not represent a binding capital commitment at the year end. The directors consider that developments likely to proceed as planned will result in further capital investment of £169m over the next five years (2010: £111m).

Capitalised interest

Interest capitalised during the year amounted to £2.8m, using an average rate of 5.0% (2009/10: £0.5m, using an average rate of 4.4%).

Assets held for sale

During the year, certain property assets with a combined net book value of £3.3m (2009/10: £5.0m) were transferred to assets held for sale. Property assets sold during the year had a net book value of £1.2m (2009/10: £2.7m), and six trading sites with a combined net book value of £4.0m (2009/10: £2.3m) continued to be classified as assets held for sale at the year end. An impairment loss of £0.4m (2009/10: £0.6m) was recognised in the year relating to assets classified as held for sale.

Notes to the consolidated financial statements At 3 March 2011

15 Impairment

During the year impairment losses of £13.0m (2009/10 £11.3m) and impairment reversals of £9.2m (2009/10 £9.8m) were recognised

| | 2010/11 | 2009/10 |
|----------------------|-------------------------------------------|------------------------------------------|
| | Property, plant and equipment £m | Property plant and equipment £m |
| Impairment losses | | |
| Hotels & Restaurants | 12.1 | 10.7 |
| Costa | 0.9 | 0.6 |
| Impairment reversals | | |
| Hotels & Restaurants | (7.9) | (9.1) |
| Costa | (1.3) | (0.7) |
| Total | 3.8 | 1.5 |

Property, plant and equipment

The Group considers each trading outlet to be a CGU and each CGU is reviewed annually for indicators of impairment

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use. In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use.

The Group estimates value in use using a discounted cash flow model, which applies a pre-tax discount rate of 9.7% in the UK with geographic specific percentages overseas (2009/10 10.0%). The future cash flows are based on assumptions from the business plans and cover a five year period. These business plans and forecasts include management's most recent view of medium term trading prospects. Cash flows beyond this period are extrapolated using a 2.0% growth rate (2009/10 2.0%).

The events and circumstances that led to the impairment charge of £13.0m are set out below

Hotels & Restaurants

The impairment of £12.1m at 15 sites in this strategic business unit was driven by a number of factors

- Changes in the local competitive environment in which the hotels are situated
- Impairment of assets held for sale to their recoverable value
- High asset prices in the market at the point of acquisition for acquired sites which also anticipated higher growth rates at that time than are now expected

Costa

Three UK Costa sites, nine sites in Shanghai and two in the Coffeeheaven business all with an established trend of poor performance against the required capital investment have been impaired by £0.9m where their expected future cash flows have fallen to such a level that their value in use is below carrying value.

Impairment reversals

Following an improvement in trading performance and an increase in amounts of estimated future cash flows of previously impaired sites, reversals of £9.2m have been recognised.

Sensitivity to changes in assumptions

The level of impairment is predominantly dependent upon judgements used in arriving at future growth rates and the discount rate applied to cash flow projections. The impact on the impairment charge of applying different assumptions to the growth rates used in the five year business plan and in the pre-tax discount rates would be as follows

| | Hotels & Restaurants £m | Costa £m | Total £m |
|---------------------------------------------------------------|-------------------------------|-------------|-------------|
| Impairment if business plan growth rates were reduced by 1ppt | (1.0) | - | (1.0) |
| Impairment if discount rate was increased by 1ppt | (1.2) | - | (1.2) |

15 Impairment (continued)

Goodwill

Goodwill acquired through business combinations is allocated to groups of CGUs at strategic business unit level, being the level at which management monitor goodwill

The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of a recent market transaction the recoverable amount is determined from value in use calculations. This is calculated using the five year business plans approved by senior management. The key assumptions in these calculations relate to revenue and the increase in rooms. The calculation is most sensitive to revenue assumptions, however senior management believe that the assumptions used are reasonable. Cash flows beyond this period are extrapolated using a 2.0% growth rate (2009/10 2.0%). The pre-tax discount rate applied to cash flow projections is 9.7% (2009/10 10.0%).

The resultant impairment review required no impairment of goodwill allocated to either the Hotels & Restaurants CGU or the Costa CGU.

A review of goodwill acquired in 2010/11 as part of the Coffee Nation acquisition on 2 March 2011 showed no indication of impairment in the current year and will be assessed for impairment as part of the Costa impairment review in future years.

Other intangibles

Other intangibles comprise Costa overseas trading licences and the franchise fee and brand name arrangements acquired with the Premier Lodge business. Costa have reviewed the intangible assets held in relation to the Russian JV and impaired them down by £0.6m (2009/10 £nil). Hotels & Restaurants have reviewed assets in relation to a site in Dublin and impaired them down by £0.2m (2009/10 £nil).

16 Investment in joint ventures

| Principal joint ventures | Investment held by | Principal activity | Country of incorporation | % equity interest | |
|--------------------------------------------------------------------|-----------------------------|--------------------|--------------------------|-------------------|------|
| | | | | 2011 | 2010 |
| Premier Inn Hotels LLC | PTI Middle East Limited | Hotels | United Arab Emirates | 49.0 | 49.0 |
| Rosworth Investments Limited | Costa International Limited | Coffee shops | Cyprus | 50.0 | 50.0 |
| Hualian Costa (Beijing) Food & Beverage Management Company Limited | Costa Beijing Limited | Coffee shops | China | 50.0 | 50.0 |

The following table provides summarised information of the Group's investment in joint ventures

| Share of joint ventures' balance sheets | 2011 £m | 2010 £m |
|-----------------------------------------------|---------------|---------------|
| Current assets | 4.5 | 4.0 |
| Non-current assets | 34.2 | 34.5 |
| Share of gross assets | 38.7 | 38.5 |
| Current liabilities | (2.5) | (3.1) |
| Non-current liabilities | (23.6) | (18.7) |
| Share of gross liabilities | (26.1) | (21.8) |
| Loans to joint ventures | 4.8 | 1.4 |
| Share of net assets | 17.4 | 18.1 |
| Share of joint ventures' revenue and expenses | 2010/11 £m | 2009/10 £m |
| Revenue | 9.5 | 4.2 |
| Cost of sales | (1.7) | (0.8) |
| Administrative expenses | (8.9) | (6.1) |
| Finance costs | (1.0) | (0.4) |
| Operating loss before tax and exceptionals | (2.1) | (3.1) |
| Impairment of fixed assets | (0.7) | - |
| Loss before tax | (2.8) | (3.1) |
| Tax | - | - |
| Net loss | (2.8) | (3.1) |

At 3 March 2011 the Group's share of the capital commitments of its joint ventures amounted to £5.9m (2010 £16.9m)

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At 3 March 2011

17 Investment in associate

| Principal associate | Investment held by | Principal activity | Country of incorporation | % equity interest | |
|-------------------------------|---------------------|--------------------|--------------------------|-------------------|------|
| | | | | 2011 | 2010 |
| Morrison Street Hotel Limited | Whitbread Group PLC | Hotels | Scotland | 40.0 | 40.0 |

The associate is a private entity which is not listed on any public exchange and therefore there is no published quotation price for the fair value of this investment

The following table provides summarised information of the Group's investment in the associated undertaking

| Share of associate's balance sheet | 2011 £m | 2010 £m |
|-----------------------------------------|---------------|---------------|
| Current assets | 1.3 | 1.2 |
| Non-current assets | 5.2 | 5.2 |
| Share of gross assets | 6.5 | 6.4 |
| Current liabilities | (0.5) | (0.6) |
| Non-current liabilities | (4.6) | (4.6) |
| Share of gross liabilities | (5.1) | (5.2) |
| Share of net assets | 1.4 | 1.2 |
| Share of associate's revenue and profit | 2010/11 £m | 2009/10 £m |
| Revenue | 2.8 | 2.4 |
| Profit | 0.8 | 0.7 |

18 Other financial assets

| | 2011 £m | 2010 £m |
|---------------------------|------------|------------|
| Opening cost or valuation | 0.9 | 0.9 |
| Disposals | - | - |
| Closing cost or valuation | 0.9 | 0.9 |
| Non-current | 0.9 | 0.9 |

The Group's other financial asset relates to an investment in a German hotel held at fair value, with any changes in value taken through the income statement. The investment is in unlisted ordinary shares and has no fixed maturity date or coupon rate and as a result is not directly exposed to interest rate risk.

Fair value is calculated based on the expected cash flows of the underlying net asset base of the investment.

19 Inventories

| | 2011 £m | 2010 £m |
|-------------------------------------------------------------|-------------|------------|
| Raw materials and consumables (at cost) | 2.1 | 1.3 |
| Finished goods (at cost) | 16.3 | 15.7 |
| Total inventories at lower of cost and net realisable value | 18.4 | 17.0 |

20 Trade and other receivables

| | 2011 £m | 2010 £m |
|---------------------------------|-------------|------------|
| Trade receivables | 49.9 | 49.7 |
| Prepayments and accrued income | 29.7 | 39.5 |
| Other receivables | 7.6 | 4.7 |
| | 87.2 | 93.9 |
| Analysed as | | |
| Current | 84.3 | 93.9 |
| Non-current - other receivables | 2.9 | - |
| | 87.2 | 93.9 |

Trade and other receivables are non-interest bearing and are generally on 30 day terms.

The provision for impairment of receivables at 3 March 2011 was £3.3m (2010: £3.3m).

20 Trade and other receivables (continued)

| The ageing analysis of trade receivables is as follows | 2011 £m | 2010 £m |
|--------------------------------------------------------|-------------|------------|
| Neither past due nor impaired | 39.2 | 40.4 |
| Less than 30 days | 5.9 | 7.0 |
| Between 30 and 60 days | 1.4 | 1.9 |
| Greater than 60 days | 3.4 | 0.4 |
| | 49.9 | 49.7 |

21 Cash and cash equivalents

| | 2011 £m | 2010 £m |
|--------------------------|-------------|------------|
| Cash at bank and in hand | 33.9 | 40.1 |
| Short-term deposits | 4.3 | 6.9 |
| | 38.2 | 47.0 |

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group. They earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £38.2m (2010: £47.0m).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following

| | 2011 £m | 2010 £m |
|---------------------------|--------------|------------|
| Cash at bank and in hand | 33.9 | 40.1 |
| Short-term deposits | 4.3 | 6.9 |
| Bank overdrafts (note 23) | (4.0) | (5.5) |
| | 34.2 | 41.5 |

22 Financial liabilities

| | Maturity | Current | | Non current | |
|-----------------------------------|--------------|------------|------------|--------------|------------|
| | | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Bank overdrafts | On demand | 4.0 | 5.5 | - | - |
| Short-term borrowings | On demand | - | 25.5 | - | - |
| | | 4.0 | 31.0 | - | - |
| Unsecured | | | | | |
| Other loans | 2010 to 2014 | 0.2 | 0.4 | 0.5 | 0.6 |
| Revolving credit facility (£700m) | 2012 | - | - | 426.1 | 528.4 |
| Revolving credit facility (£455m) | 2013 | - | - | - | - |
| Private placement loan notes | 2017 to 2020 | - | - | 95.3 | - |
| Total | | 4.2 | 31.4 | 521.9 | 529.0 |

Short-term borrowings

Short-term borrowings are typically overnight borrowings, repayable on demand. Interest rates are variable and linked to LIBOR.

Revolving credit facility (£700m)

The revolving credit facility was entered into on 9 December 2005 and ran until 8 December 2010. Two one-year extensions were agreed with Whitbread PLC's banking group such that £475m is available until December 2011 and £400m is available until December 2012. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

Revolving credit facility (£455m)

The revolving credit facility was entered into on 20 March 2008 and runs until 20 March 2013. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

Notes to the consolidated financial statements At 3 March 2011

22 Financial liabilities (continued)

Private placement loan notes

On 13 August 2010, the Group completed a financing transaction in the United States Private Placement market. The Group issued loan notes in a combination of both sterling and US dollars at maturities of both seven and 10 years with a fixed coupon payable semi-annually. Further details of the loan notes are set out below.

| Title | Principal value | Maturity | Coupon |
|---------------------|-----------------|-----------|--------|
| Series A loan notes | \$40m | 13-Aug-17 | 4.55% |
| Series B loan notes | \$75m | 13-Aug-20 | 5.23% |
| Series C loan notes | £25m | 13-Aug-20 | 5.19% |

Following the issue of the Series A loan notes, the Group entered into cross-currency swaps whereby it receives a fixed interest rate of 4.55% on a notional amount of \$40.0m and pays an average of 4.53% on a notional sterling balance of £26.7m. These swaps have been formally designated as a cash flow hedge of the Series A loan notes.

The Series B loan notes have been converted to sterling debt with a floating rate coupon by entering into cross-currency swaps whereby the Group receives a fixed interest rate of 5.23% on a notional amount of \$75.0m and pays a spread of between 1.715% and 1.755% over 6m GBP LIBOR on a notional sterling balance of £50.1m. These swaps have been formally designated as a fair value hedge of the Series B loan notes, with any fair value movements on both the derivatives and the underlying debt taken to the income statement. At 3 March 2011 the carrying value of the private placement loan notes included a fair value hedge adjustment of £4.7m which decreased the liability.

The above swaps eliminate any foreign exchange risk on the repayment of the principal amounts of the Series A and B notes. The sterling denominated Series C loan notes remain as fixed rate sterling debt with no related swap transactions.

An analysis of the interest rate profile and the maturity of the borrowings, together with related interest rate swaps, is as follows:

| | Within 1 year £m | 1-2 years £m | 2-5 years £m | Over 5 years £m | Total £m |
|---------------------------------------|------------------------|--------------------|--------------------|-----------------------|--------------|
| Year ended 3 March 2011 | | | | | |
| Fixed rate | 0.2 | 0.2 | 0.3 | 95.3 | 96.0 |
| Fixed to floating rate swaps | - | - | - | (50.1) | (50.1) |
| Floating to fixed interest rate swaps | 200.0 | 100.0 | - | 100.0 | 400.0 |
| | 200.2 | 100.2 | 0.3 | 145.2 | 445.9 |
| Floating rate | 4.0 | 426.1 | - | - | 430.1 |
| Fixed to floating rate swaps | - | - | - | 50.1 | 50.1 |
| Floating to fixed interest rate swaps | (200.0) | (100.0) | - | (100.0) | (400.0) |
| | (196.0) | 326.1 | - | (49.9) | 80.2 |
| Total | 4.2 | 426.3 | 0.3 | 95.3 | 526.1 |
| Year ended 4 March 2010 | | | | | |
| Fixed rate | 0.1 | 0.2 | 0.4 | - | 0.7 |
| Floating to fixed interest rate swaps | - | 200.0 | 100.0 | 100.0 | 400.0 |
| | 0.1 | 200.2 | 100.4 | 100.0 | 400.7 |
| Floating rate | 31.3 | - | 528.4 | - | 559.7 |
| Floating to fixed interest rate swaps | - | (200.0) | (100.0) | (100.0) | (400.0) |
| | 31.3 | (200.0) | 428.4 | (100.0) | 159.7 |
| Total | 31.4 | 0.2 | 528.8 | - | 560.4 |

Maturity analysis is grouped by when the debt is contracted to mature rather than by repricing dates, as allowed under IFRS.

The swaps with maturities beyond the life of the current revolving credit facilities (2013) are in place to hedge against the core level of debt the Group will hold.

The carrying amount of the Group's borrowings is denominated in sterling and US dollars.

At 3 March 2011, the Group had available £503.9m (2010: £626.6m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

23 Movements in cash and net debt

| Year ended 3 March 2011 | 4 March 2010 £m | Cost of borrowings £m | Cash flow £m | Foreign exchange £m | Fair value adjustments to loan capital £m | Amortisation of premiums and discounts £m | 3 March 2011 £m |
|-----------------------------|--------------------|--------------------------|-----------------|------------------------|----------------------------------------------|----------------------------------------------|--------------------|
| Cash at bank and in hand | 47.0 | - | - | - | - | - | 38.2 |
| Overdrafts | (5.5) | - | - | - | - | - | (4.0) |
| Cash and cash equivalents | 41.5 | - | (7.1) | (0.2) | - | - | 34.2 |
| Short-term bank borrowings | (25.5) | - | 25.5 | - | - | - | - |
| Loan capital under one year | (0.4) | - | - | - | - | - | (0.2) |
| Loan capital over one year | (529.0) | - | - | - | - | - | (521.9) |
| Total loan capital | (529.4) | 1.1 | 2.3 | - | 4.7 | (0.8) | (522.1) |
| Net debt | (513.4) | 1.1 | 20.7 | (0.2) | 4.7 | (0.8) | (487.9) |

| Year ended 4 March 2010 | 26 February 2009 £m | Cost of borrowings £m | Cash flow £m | Foreign exchange £m | Fair value adjustments to loan capital £m | Amortisation of premiums and discounts £m | 4 March 2010 £m |
|-----------------------------|------------------------|--------------------------|-----------------|------------------------|----------------------------------------------|----------------------------------------------|--------------------|
| Cash at bank and in hand | 44.5 | - | - | - | - | - | 47.0 |
| Overdrafts | (1.8) | - | - | - | - | - | (5.5) |
| Cash and cash equivalents | 42.7 | - | (1.0) | (0.2) | - | - | 41.5 |
| Short-term bank borrowings | - | - | (25.5) | - | - | - | (25.5) |
| Loan capital under one year | (0.1) | - | - | - | - | - | (0.4) |
| Loan capital over one year | (665.7) | - | - | - | - | - | (529.0) |
| Total loan capital | (665.8) | - | 137.1 | - | - | (0.7) | (529.4) |
| Net debt | (623.1) | - | 110.6 | (0.2) | - | (0.7) | (513.4) |

24 Provisions

| | Onerous contracts £m | Reorganisation £m | Other £m | Total £m |
|----------------------------|-------------------------|----------------------|-------------|-------------|
| At 26 February 2009 | 24.5 | 8.3 | 8.1 | 40.9 |
| Arising during the year | 21.7 | 1.3 | 0.3 | 23.3 |
| Unwinding of discount rate | 0.9 | - | - | 0.9 |
| Utilised | (5.2) | (5.5) | (0.1) | (10.8) |
| Released | - | - | (0.5) | (0.5) |
| Transferred | 2.8 | (2.8) | - | - |
| At 4 March 2010 | 44.7 | 1.3 | 7.8 | 53.8 |
| Unwinding of discount rate | 0.9 | - | - | 0.9 |
| Utilised | (9.4) | (0.1) | - | (9.5) |
| Transferred | 0.6 | - | (0.6) | - |
| At 3 March 2011 | 36.8 | 1.2 | 7.2 | 45.2 |
| Analysed as | | | | |
| Current | 14.0 | 1.2 | 0.2 | 15.4 |
| Non-current | 22.8 | - | 7.0 | 29.8 |
| | 36.8 | 1.2 | 7.2 | 45.2 |

Onerous contracts

Onerous contract provisions relate primarily to property reversions. Provision is made for rent and other property related costs for the period that a sub-let or assignment of the lease is not possible.

Where the property is deemed likely to be assigned, provision is made for the best estimate of the reverse lease premium payable on the assignment. Where the property is deemed likely to be sub-let, the rental income and the timing of the cash flows are estimated by both internal and external property specialists and a provision is maintained for the cost incurred by the Group.

Onerous lease provisions are discounted using a discount rate of 3.74% (2010: 4.20%) based on a 10 year Government Gilt rate as an approximation for a risk free rate.

The amount and timing of the cash outflows are subject to variations. The Group utilises the skills and expertise of both internal and external property experts to determine the provision held.

Provisions are expected to be utilised over a period of up to 30 years.

Notes to the consolidated financial statements

At 3 March 2011

24 Provisions (continued)

Reorganisation

The reorganisation provisions were created as a result of an overhead review carried out after the disposal of David Lloyd Leisure Limited and TGI Friday's, and for the outsourcing of the Group's logistics operations and the simplification of IT. The remaining provision relates to the final redundancy costs of the IT simplification project whose implementation has been delayed to 2011/12.

Other

Other provisions relate to warranties given on the disposal of businesses. These are expected to be used over periods of up to six years.

25 Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans, private placement loans, cash and short-term deposits. The Group's financial instrument policies can be found in the accounting policies in note 2. The Board agrees policies for managing the risks summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term sterling debt obligations. Interest rate swaps are used to achieve the desired mix of fixed and floating rate debt. The Group's policy is to fix, on a long-term basis, between 35% and 65% of projected net interest cost over the next 15 years, which is beyond the life of the Group's existing revolving credit facilities. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. Most of the swaps held at the balance sheet date were entered into in January 2007 as part of a long-term fixing strategy. However, following the reduction in debt during the year, at year end, £445.9m (84.7%) of Group debt was fixed for an average of 3.75 years (2010: £400.7m, 71.4%, for 4.0 years), using floating rate borrowings and interest rate swaps. The intention is that the fixed rate debt ratio will reduce going forward to come back in line with Group policy. The average rate of interest on this fixed rate debt was 5.5% (2009/10: 5.6%).

Although the private placement loan rates are US dollar denominated, cross-currency swaps mean that the interest rate risk is effectively sterling only.

In accordance with IFRS 7 the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of the hedging instruments in place at 3 March 2011 and 4 March 2010 respectively. Consequently, the analysis relates to the situation at those dates and is not representative of the years then ended. The following assumptions were made:

- Balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move,
- Gains or losses are recognised in equity or the income statement in line with the accounting policies set out in note 2, and
- Cash flow hedges were effective.

Based on the Group's net debt position at the year end a 1ppt change in interest rates would affect the Group's profit before tax by approximately £0.7m (2009/10: £1.2m), and equity by approximately £11.3m (2010: £13.8m).

Liquidity risk

The Group mitigates liquidity risk by managing cash generated by its operations combined with bank borrowings and long-term debt. In its funding strategy the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts and bank loans. This strategy includes monitoring the maturity of financial liabilities to avoid the risk of a shortage of funds.

Excess cash used in managing liquidity is placed on interest-bearing deposit with maturities fixed at no more than three months. Short-term flexibility is achieved through the use of short-term borrowing on the money markets.

The tables below summarise the maturity profile of the Group's financial liabilities at 3 March 2011 and 4 March 2010 based on contractual undiscounted payments, including interest.

| | On demand £m | Less than 3 months £m | 3-12 months £m | 1-5 years £m | More than 5 years £m | Total £m |
|------------------------------------------------|-----------------|-----------------------------|----------------------|--------------------|----------------------------|--------------|
| 3 March 2011 | | | | | | |
| Interest-bearing loans and borrowings | 4.0 | 2.9 | 7.1 | 447.4 | 117.7 | 579.1 |
| Derivative financial instruments | - | 8.2 | 8.2 | 16.5 | 10.1 | 43.0 |
| Trade and other payables | - | 149.1 | - | - | - | 149.1 |
| Accrued financial liabilities | - | - | 88.6 | 15.2 | - | 103.8 |
| Provisions in respect of financial liabilities | - | 3.1 | 9.9 | 15.7 | 12.5 | 41.2 |
| | 4.0 | 163.3 | 113.8 | 494.8 | 140.3 | 916.2 |

25 Financial risk management objectives and policies (continued)

Liquidity risk (continued)

| 4 March 2010 | On demand £m | Less than 3 months £m | 3-12 months £m | 1-5 years £m | More than 5 years £m | Total £m |
|------------------------------------------------|-----------------|-----------------------------|----------------------|--------------------|----------------------------|--------------|
| Interest-bearing loans and borrowings | 31.3 | 3.0 | 2.9 | 539.1 | – | 576.3 |
| Derivative financial instruments | – | 9.4 | 9.4 | 34.9 | 19.6 | 73.3 |
| Trade and other payables | – | 153.9 | – | 8.2 | – | 162.1 |
| Accrued financial liabilities | – | – | 79.4 | – | – | 79.4 |
| Provisions in respect of financial liabilities | – | – | 19.3 | 19.1 | 9.6 | 48.0 |
| | 31.3 | 166.3 | 111.0 | 601.3 | 29.2 | 939.1 |

Credit risk

There are no significant concentrations of credit risk within the Group

The Group is exposed to a small amount of credit risk that is primarily attributable to its trade and other receivables. This is minimised by dealing with counterparties with high credit ratings. The amounts included in the balance sheet are net of allowances for doubtful debts, which have been estimated by management based on prior experience and known factors at the balance sheet date which may indicate that a provision is required. The Group's maximum exposure on its trade and other receivables is the carrying amount as disclosed in note 20.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments. The Group seeks to minimise the risk of default in relation to cash and cash equivalents by spreading investments across a number of counterparties.

In the event that any of the Group's banks get into financial difficulties the Group is exposed to the risk of withdrawal of currently undrawn committed facilities. This risk is mitigated by the Group having a range of counterparties to its facilities and by maintaining headroom.

Foreign currency risk

Foreign exchange exposure is currently not significant to the Group. Although the Group has US dollar denominated loan notes these have been swapped into sterling thereby eliminating foreign currency risk. Sensitivity analysis has therefore not been carried out.

Overseas investments are generally start-up businesses undertaken through joint venture arrangements. The Group monitors the growth and risks associated with its overseas operations and will undertake hedging activities as and when they are required.

Capital management

The Group's primary objective in regard to capital management is to ensure that it continues to operate as a going concern and has sufficient funds, at its disposal to grow the business for the benefit of shareholders. The Group seeks to maintain a ratio of debt to equity that balances risks and returns and also complies with lending covenants. See pages 16 and 17 of the Annual Report for the policies and objectives of the Board regarding capital management, analysis of the Group's credit facilities and financing plans for the coming years.

The Group aims to maintain sufficient funds for working capital and future investment in order to meet growth targets. The Group has adopted a framework to keep leverage (debt divided by EBITDA) on a pensions lease adjusted basis at 3.5 times or below which was achieved for the year ended 3 March 2011. This calculation takes account of net debt, pensions deficit and capital value of leases. The management of equity through share buy backs and new issues is considered as part of the overall leverage framework balanced against the funding requirements of future growth.

The Group's financing is subject to financial covenants. These covenants relate to measurement of EBITDA against consolidated net finance charges (interest cover) and total net debt (leverage ratio, on an unadjusted basis). The Group has complied with all covenants.

The above matters are considered at regular intervals and form part of the business planning and budgeting processes. In addition, the Board regularly reviews the Group's dividend policy and funding strategy.

Notes to the consolidated financial statements At 3 March 2011

26 Financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's principal financial instruments

The fair value of loan capital and derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date

| | Carrying values | | Fair values | |
|------------------------------------------------|-----------------|------------|--------------|------------|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Financial assets | | | | |
| Cash and cash equivalents | 38.2 | 47 0 | 38.2 | 47 0 |
| Other financial asset | 0 9 | 0 9 | 0.9 | 0 9 |
| Financial liabilities | | | | |
| Bank overdrafts and short-term borrowings | 4.0 | 31 0 | 4 0 | 31 0 |
| Interest-bearing loans and borrowings | 522.1 | 529 4 | 522.1 | 529 4 |
| Derivative financial instruments - non-current | 16.6 | 17 2 | 16 6 | 17 2 |
| Derivative financial instruments - current | 16.3 | 18 9 | 16 3 | 18 9 |

The fair value of other financial assets and liabilities disclosed in notes 20, 24 and 27 are considered to be approximately the same as their carrying amounts

Hierarchical classification of financial assets and liabilities measured at fair value

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy

Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2

Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3

Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|----------------------------------|---------------|---------------|---------------|-------------|
| 3 March 2011 | | | | |
| Financial assets | | | | |
| Other financial asset | - | - | 0 9 | 0 9 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 32 9 | - | 32.9 |
| 4 March 2010 | | | | |
| Financial assets | | | | |
| Other financial asset | - | - | 0 9 | 0 9 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 36 1 | - | 36 1 |

During the year ended 3 March 2011 there were no transfers between levels 1, 2 or 3 fair value measurements (2010: nil)

26 Financial instruments (continued)

Derivative financial instruments

Hedges

Cash flow hedges

At 3 March 2011 the Group had interest rate swaps in place to swap a notional amount of £400m (2010 £400m) whereby it receives a variable interest rate based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 5.695% (2010 5.145% and 5.695%). The swaps are being used to hedge the exposure to changes in future cash flows from variable rate debt.

The swaps with maturities beyond the life of the current revolving credit facilities (2013) are in place to hedge against the core level of debt the Group will hold.

Following the issue of the Series A loan notes during the year in the US Private Placement market, the Group entered into cross-currency swap whereby it receives a fixed interest rate of 4.55% on a notional amount of \$40.0m and pays an average of 4.53% on a notional sterling balance of £26.7m.

Fair value hedges

Following the issue of the Series B loan notes during the year in the US Private Placement market, the Group entered into cross-currency swap whereby it receives a fixed interest rate of 5.23% on a notional amount of \$75.0m and pays a spread of between 1.715% and 1.755% over 6m GBP LIBOR on a notional sterling balance of £50.1m.

Cash flow and fair value hedges are expected to impact on the income statement in line with the liquidity risk table shown in note 25.

The cash flow hedges were assessed to be highly effective at 3 March 2011 and a net unrealised gain of £8.6m (2009/10 net unrealised gain of £3.0m) has been recorded in other comprehensive income. The fair value hedges were also assessed to be highly effective at 3 March 2011 with nil impact on the income statement (2009/10 £nil). During the year, a loss of £18.4m (2009/10 £15.9m) was charged to the income statement in respect of hedged items affecting the net finance charge for the year.

27 Trade and other payables

| | 2011 £m | 2010 £m |
|--------------------------------------------|--------------|--------------|
| Trade payables | 112.9 | 124.8 |
| Other taxes and social security | 41.7 | 49.9 |
| Accruals and deferred income | 89.4 | 81.0 |
| Other payables | 51.4 | 38.8 |
| | 295.4 | 294.5 |
| Analysed as | | |
| Current | 280.2 | 286.3 |
| Non-current - accruals and deferred income | 15.2 | 8.2 |
| | 295.4 | 294.5 |

28 Share capital

Ordinary share capital

| Allotted, called up and fully paid ordinary shares of 76.80p each (2010 76.80p each) | million | £m |
|--------------------------------------------------------------------------------------|--------------|--------------|
| At 26 February 2009 | 189.1 | 145.3 |
| Issued | 0.5 | 0.4 |
| Issued in lieu of dividends | | |
| 2008/09 final | 0.7 | 0.5 |
| 2009/10 interim | 0.3 | 0.2 |
| At 4 March 2010 | 190.6 | 146.4 |
| Issued | 0.3 | 0.2 |
| Issued in lieu of dividends | | |
| 2009/10 final | 0.2 | 0.1 |
| 2010/11 interim | 0.3 | 0.3 |
| At 3 March 2011 | 191.4 | 147.0 |

Notes to the consolidated financial statements At 3 March 2011

28 Share capital (continued)

At the 2010 Annual General Meeting, the Company was authorised to purchase up to 17.8m of its own shares on the open market

During the year no ordinary shares were acquired (2009/10 nil) No shares were cancelled in the year (2009/10 nil) The remainder are being held in the treasury reserve (note 29)

During the year to 3 March 2011 options over 0.3m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2009/10 0.2m)

Shareholders were offered a scrip alternative to the 2009/10 cash final dividend of 28.35p and to the 2010/11 cash interim dividend of 11.25p. Ordinary shares issued in respect of this totalled 491,875. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account

The total number of shares in issue at the year end used in the calculation of the basic weighted average number of ordinary shares was 191.4m, less 14.3m treasury shares held by Whitbread PLC and 0.9m held by the ESOT (2010 190.6m, less 14.7m treasury shares held by Whitbread PLC and 0.5m held by the ESOT)

Preference share capital

| Allotted, called up and fully paid shares of 1p each (2010 1p each) | B Shares | | C Shares | |
|------------------------------------------------------------------------|------------|----------|------------|----------|
| | million | £m | million | £m |
| At 26 February 2009 | 2.0 | – | 1.9 | – |
| Repurchased and cancelled | – | – | – | – |
| At 4 March 2010 | 2.0 | – | 1.9 | – |
| Repurchased and cancelled | – | – | – | – |
| At 3 March 2011 | 2.0 | – | 1.9 | – |

B shareholders are entitled to an annual non-cumulative preference dividend paid in arrears on or around 2 July each year on a notional amount of 155 pence per share

C shareholders are entitled to an annual non-cumulative preference dividend paid in arrears on or around 14 January each year on a value of 159 pence per share

Other than shares issued in the normal course of business as part of the share-based payments schemes and those issued in respect of scrip dividends, there have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements

29 Reserves

Share premium

The share premium reserve is the premium paid on the Company's 76.80p ordinary shares. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account. During the year, shares with a nominal value of £0.4m were issued in lieu of the 2009/10 final and 2010/11 interim cash dividends (2009/10 £0.7m)

Capital redemption reserve

A capital redemption reserve was created on the cancellation of the Group's B and C preference shares (note 28) and also includes the nominal value of cancelled ordinary shares

Retained earnings

In accordance with IFRS practice, retained earnings include revaluation reserves which are not distributable under UK law

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and other foreign currency investments

Merger reserve

The merger reserve arose as a consequence of the merger in 2000/1 of Whitbread Group PLC and Whitbread PLC

Hedging reserve

This reserve records movements for effective cash flow hedges measured at fair value

29 Reserves (continued)

Treasury reserve

This reserve relates to shares held by an independently managed employee share ownership trust (ESOT) and treasury shares held by Whitbread PLC. The shares held by the ESOT were purchased in order to satisfy outstanding employee share options and potential awards under the Long-Term Incentive Plan (LTIP) and other incentive schemes.

The movement in treasury shares during the year is set out in the table below.

| | Treasury shares held by Whitbread PLC | | ESOT shares held | |
|---------------------------|---------------------------------------|--------------|------------------|-------------|
| | million | £m | million | £m |
| At 26 February 2009 | 14.7 | 216.0 | 0.8 | 10.3 |
| Exercised during the year | - | - | (0.3) | (4.3) |
| At 4 March 2010 | 14.7 | 216.0 | 0.5 | 6.0 |
| Transferred | (0.5) | (7.3) | 0.5 | 7.3 |
| Purchased | - | - | 0.4 | 5.1 |
| Exercised during the year | - | - | (0.5) | (6.2) |
| At 3 March 2011 | 14.2 | 208.7 | 0.9 | 12.2 |

The treasury shares reduce the amount of reserves available for distribution to shareholders by £220.9m (2010: £222.0m).

30 Commitments and contingencies

Operating lease commitments

The Group leases various buildings which are used within the Hotels & Restaurants and Costa businesses. The leases are non-cancellable operating leases with varying terms, escalation clauses and renewal rights. The Group also leases various plant and equipment under non-cancellable operating lease agreements.

Contingent rents are the portion of the lease payment that is not fixed in amount but based upon the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest).

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2011 £m | 2010 £m |
|--------------------------------------------------|----------------|----------------|
| Due within one year | 109.5 | 93.0 |
| Due after one year but not more than five years | 385.8 | 312.2 |
| Due after five years but not more than ten years | 326.0 | 266.9 |
| Due after ten years | 1,025.0 | 957.1 |
| | 1,846.3 | 1,629.2 |

Future minimum rentals payable under non-cancellable operating leases disclosed above includes £94.3m in relation to privity contracts. Future lease costs in respect of these privity contracts are included within the onerous contracts provision (note 24). Onerous contracts are under constant review and every effort is taken to reduce this obligation.

The weighted average lease life of future minimum rentals payable under non-cancellable operating leases is 16.0 years (2010: 17.3 years).

Group companies have sub-let space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 3 March 2011 are £18.8m (2010: £21.8m).

Contingent liabilities

As disclosed in note 6, during the period the Group received £4.6m refund of VAT charged on gaming machine income, together with associated interest of £0.7m. The refund was made following a ruling that the application of VAT to certain types of gaming machine income contravened the European Union's principle of fiscal neutrality. HMRC have appealed against the ruling, and if HMRC's appeal is upheld the refund and associated interest of £5.3m would be repayable.

Notes to the consolidated financial statements At 3 March 2011

31 Share-based payment plans

Long-Term Incentive Plan (LTIP)

The LTIP awards shares to directors and senior executives of the Group. Vesting of shares under the scheme will depend on continued employment and meeting total shareholder return (TSR) and earnings per share (EPS) performance targets over a three year period. Details of the performance targets for the LTIP awards can be seen in the Remuneration report on pages 11 to 18.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows:

| | 2011 Awards | 2010 Awards |
|------------------------------------------|----------------|----------------|
| Outstanding at the beginning of the year | 630,222 | 359,254 |
| Granted during the year | 196,104 | 356,380 |
| Exercised during the year | (95,072) | (71,088) |
| Expired during the year | (29,868) | (14,324) |
| Outstanding at the end of the year | 701,386 | 630,222 |

Exercisable at the end of the year

- -

Deferred equity awards

Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/5.

The awards are not subject to performance conditions and will vest in full on the release date subject to continued employment at that date. If the director or senior executive of the Group ceases to be an employee of Whitbread prior to the release date, normally three years after the award, by reason of redundancy, retirement, death, injury, ill health, disability or some other reason considered to be appropriate by the Remuneration Committee the awards will be released in full. If employment ceases for any other reason the proportion of awards which vests depends upon the year in which the award was made and the date that employment ceased. If employment ceases in the first year after an award is made none of the award vests, between the first and second anniversary 25% vests and between the second and third anniversary 50% vests.

Movements in the number of share awards are as follows:

| | 2011 Awards | 2010 Awards |
|------------------------------------------|----------------|----------------|
| Outstanding at the beginning of the year | 451,366 | 385,729 |
| Granted during the year | 338,233 | 249,371 |
| Exercised during the year | (379,869) | (172,047) |
| Expired during the year | (2,852) | (11,687) |
| Outstanding at the end of the year | 406,878 | 451,366 |

Exercisable at the end of the year

- -

Executive Share Option Scheme (ESOS)

Annual grants of share options have been discontinued, and there is no current intention to grant any further options. No changes will be made to options already granted.

The only option still outstanding was granted in 2001 and the performance conditions required the Company's adjusted earnings per share to exceed RPI plus 4% per annum measured over any three consecutive years out of the 10 year performance period starting in March 2001 and ending in March 2011.

31 Share-based payment plans (continued)

Executive Share Option Scheme (ESOS) (continued)

Movements in the number of share options and the related weighted average exercise price (WAEP) are as follows

| | 2011 | | 2010 | |
|------------------------------------------|------------|-----------------------|--------------|-----------------------|
| | Options | WAEP (£ per share) | Options | WAEP (£ per share) |
| Outstanding at the beginning of the year | 1,767 | 5.39 | 584,616 | 7.06 |
| Exercised during the year | (870) | 5.39 | (561,349) | 6.92 |
| Expired during the year | - | - | (21,500) | 11.01 |
| Outstanding at the end of the year | 897 | 5.39 | 1,767 | 5.39 |
| Exercisable at the end of the year | 897 | 5.39 | 1,767 | 5.39 |

The weighted average contractual life for the share options outstanding as at 3 March 2011 is less than one year and they are exercisable at a price of £5.39 (2010 £5.39)

The weighted average share price at the date of exercise for ESOS options exercised during the year was £16.90

Employee share scheme

The employee share save scheme is open to employees with the required minimum period of service and provides for a purchase price equal to the market price on the date of grant, less a 20% discount. The shares can be purchased over the six month period following the third or fifth anniversary of the commencement date, depending on the length chosen by the employee.

Movements in the number of share options and the related WAEP are as follows

| | 2011 | | 2010 | |
|------------------------------------------|------------------|-----------------------|------------------|-----------------------|
| | Options | WAEP (£ per share) | Options | WAEP (£ per share) |
| Outstanding at the beginning of the year | 1,340,142 | 8.76 | 1,478,954 | 8.40 |
| Granted during the year | 313,617 | 14.14 | 379,528 | 10.08 |
| Exercised during the year | (142,975) | 10.72 | (171,364) | 8.58 |
| Expired during the year | (206,752) | 9.37 | (346,976) | 8.85 |
| Outstanding at the end of the year | 1,304,032 | 9.74 | 1,340,142 | 8.76 |
| Exercisable at the end of the year | 23,081 | 11.50 | 22,931 | 10.15 |

The weighted average contractual life for the share options outstanding as at 3 March 2011 is between two and three years and are exercisable at prices between £7.28 and £14.17 (2010 £6.53 and £14.17). The fair value of share options granted is estimated as at the date of grant using a stochastic model, taking into account the terms and conditions upon which the options were granted.

The weighted average share price at the date of exercise for employee share scheme options exercised during the year was £17.22

Total charged to the income statement

| | Year to 3 March 2011 £m | Year to 4 March 2010 £m |
|--------------------------|----------------------------------|----------------------------------|
| Long-Term Incentive Plan | 2.2 | 1.9 |
| Deferred equity | 4.0 | 2.3 |
| Employee share scheme | 1.6 | 1.7 |
| | 7.8 | 5.9 |
| Equity-settled | 7.7 | 5.9 |
| Cash-settled | 0.1 | - |
| | 7.8 | 5.9 |

Notes to the consolidated financial statements

At 3 March 2011

31 Share-based payment plans (continued)

The following table lists the inputs to the model used for the years ended 3 March 2011 and 4 March 2010

| | Grant date | Number of shares granted | Fair value | Fair value £ | Exercise price p | Price at grant date p | Expected term (years) | Expected dividend yield | Expected volatility | Risk-free rate | Vesting conditions |
|------------------------|------------|--------------------------|------------|--------------|------------------|-----------------------|-----------------------|-------------------------|---------------------|----------------|---------------------------|
| LTIP awards | 28 04 2010 | 98 052 | 54 1% | 819 563 | – | 1,545 0 | 3 | 2 46% | 42% | 1 73% | Market ^{1 3} |
| | 28 04 2010 | 98 052 | 92 9% | 1,407,345 | – | 1,545 0 | 3 | 2 46% | 42% | 1 73% | Non-market ^{2 3} |
| | 28 04 2009 | 178,190 | 52 4% | 843,145 | – | 903 0 | 3 | 4 05% | 39% | 1 95% | Market ^{1 3} |
| | 28 04 2009 | 178,190 | 88 6% | 1 425,623 | – | 903 0 | 3 | 4 05% | n/a | n/a | Non-market ^{2 3} |
| Deferred equity awards | 28 04 2010 | 338,233 | 92 9% | 4,853,996 | – | 1,545 0 | 3 | 2 46% | 42% | 1 73% | Non-market ³ |
| | 28 04 2009 | 249,371 | 88 6% | 1,995,113 | – | 903 0 | 3 | 4 05% | n/a | n/a | Non-market ³ |
| SAYE - 3 years | 01 12 2010 | 226 344 | 33 4% | 1,347 000 | 1 414 0 | 1,782 0 | 3 25 | 2 22% | 40% | 1 22% | Non market ³ |
| | 01 12 2009 | 293 478 | 33 7% | 1,286,300 | 1,008 0 | 1,299 0 | 3 25 | 2 81% | 40% | 1 91% | Non-market ³ |
| SAYE - 5 years | 01 12 2010 | 87,273 | 35 4% | 550,200 | 1,414 0 | 1,782 0 | 5 25 | 2 22% | 35% | 2 14% | Non-market ³ |
| | 01 12 2009 | 86 050 | 34 2% | 382,300 | 1 008 0 | 1,299 0 | 5 25 | 2 81% | 34% | 2 63% | Non-market ³ |

1 Total shareholder return (TSR)

2 Earnings per share

3 Employment service

Expected volatility reflects the assumption that historical volatility is indicative of future trends, which may not necessarily be the actual outcome

The risk-free rate is the rate of interest obtainable from government securities over the expected life of the equity incentive

The expected dividend yield is calculated on the basis of publicly available information at the time of the grant date which, in most cases, is the historic dividend yield

No other features relating to the granting of options were incorporated into the measurement of fair value

At 3 March 2011 there were outstanding options for employees to purchase up to 1.3m (2010 1.3m) ordinary shares of 76.80 pence each between 2011 and 2016 at prices between £5.39 and £14.17 per share (2010 between 2010 and 2015 at prices between £5.39 and £14.17 per share)

Employee Share Ownership Trust (ESOT)

The Company funds an ESOT to enable it to acquire and hold shares for the LTIP and executive share option schemes. The ESOT held 0.9m shares at 3 March 2011 (2010 0.5m). All dividends on the shares in the ESOT are waived by the Trustee.

32 Retirement benefits

Defined contribution schemes

The Group operates a contracted-in defined contribution scheme under the Whitbread Group Pension Fund. Contributions by both employees and Group companies are held in externally invested trustee-administered funds. The Group also has a contracted-out defined contribution pension scheme which closed to new members on 31 December 2001.

The Group contributes a specified percentage of earnings for members of the above defined contribution schemes, and thereafter has no further obligations in relation to the schemes. The total cost charged to income in relation to defined contribution schemes in the year was £3.3m (2009/10 £2.0m).

At the year end, 1,743 employees (2010 1,641) were active members of the schemes, which also had 6,791 deferred members (2010 6,769).

Defined benefit schemes

The defined benefit (final salary) section of the principal Group pension scheme, the Whitbread Group Pension Fund, was closed to new members on 31 December 2001 and to future accrual on 31 December 2009. The scheme is funded, and contributions by both employees and Group companies are held in externally invested trustee-administered funds. Members of the scheme are contracted out of the State Second Pension.

At the year end the scheme had no active members (2010 nil), 26,101 deferred pensioners (2010 26,744) and 16,258 pensions in payment (2010 15,998).

32 Retirement benefits (continued)

Defined benefit schemes (continued)

A scheme specific actuarial valuation for the purpose of determining the level of cash contributions to be paid into the Whitbread Group Pension Fund was undertaken as at 31 March 2008. A deficit recovery plan and some protection whilst the scheme remains in deficit have been agreed with the Trustee. The Group will make the following payments to the Fund: £55m in each of August 2011, August 2012 and August 2013, £65m in each of August 2014 and August 2015, £70m in August 2016, £80m in each of August 2017 and August 2018. For the period of the deficit, the Group has agreed to give undertakings to the Trustee similar to some of the covenants provided in respect of its banking agreements, up to the value of any outstanding recovery plan payments or the remaining deficit, if lower. Until the next valuation the Trustee has also been given a promise of participation in increases in ordinary dividends where these exceed RPI and the right to consultation before any special distribution can be made.

In addition to the scheduled deficit contribution payments described above, the Pension Scheme will receive a share of the income, profits and a variable capital payment from its investment in Moorgate Scottish Limited Partnership, which was established by the Group in the year ended 4 March 2010 (the share in profits is accounted for by the Group as contributions when paid). The partnership interests in Moorgate SLP are held by the Group, the general partner, and by the Pension Scheme. A further £39m investment was made during the year on the same basis as the £102m investment made by the Pension Scheme Trustee in the previous financial year.

Moorgate SLP holds an investment in a further partnership, Farringdon Scottish Partnership, which was also established by the Group during the previous financial year. Property assets with a market value of £221m have been transferred from other Group companies to Farringdon SP and leased back to Whitbread Group PLC and Premier Inn Hotels Limited. The Group retains control over these properties, including the flexibility to substitute alternative properties. However, the Trustee has first charge over the property portfolio and certain other assets with an aggregate value of £228m. The Group retains control over both partnerships, and as such they are fully consolidated in these Group financial statements.

The Pension Scheme is a partner in Moorgate SLP and, as such, is entitled to an annual share of the profits of the partnership over the next 14 years. At the end of this period, the partnership capital allocated to the Pension Scheme partner will be changed, depending on the funding position of the Pension Scheme at that time, to a value up to £150m (2010: £110m). At that point, the Group may be required to transfer this amount in cash to the Pension Scheme.

Under IAS 19 the investment held by the Pension Scheme in Moorgate SLP, a consolidated entity, does not represent a plan asset for the purposes of the Group's consolidated financial statements. Accordingly the pension deficit position in these Group financial statements does not reflect the £141m (2010: £102m) investment in Moorgate SLP held by the Pension Scheme.

The total service cost contributions to the Whitbread Group Pension Fund in 2011/12 will be £nil.

The IAS 19 pension cost relating to the defined benefit section of the Whitbread Group Pension Fund is assessed in accordance with actuarial advice from Lane Clark & Peacock and Towers Watson, using the projected unit credit method. As the scheme is now closed to future accrual, there will be no service cost in the future.

The principal assumptions used by the independent qualified actuaries in updating the most recent valuation carried out as at 31 March 2008 of the UK schemes to 3 March 2011 for IAS 19 purposes were:

| | At 3 March 2011 | At 4 March 2010 |
|-------------------------------------------------------------------------------|-----------------------|-----------------------|
| Rate of increase in salaries | n/a ¹ | n/a ¹ |
| Pre April 2006 rate of increase in pensions in payment and deferred pensions | 3.25% | 3.30% |
| Post April 2006 rate of increase in pensions in payment and deferred pensions | 2.15% | 2.20% |
| Pension increases in deferment | 3.45% | 3.50% |
| Discount rate | 5.60% | 5.60% |
| Inflation assumption | 3.45% | 3.50% |

¹ The Whitbread Group Pension fund was closed to future accrual on 31 December 2009. From this point active members' benefits only increase in line with inflation.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 20.7 years (2010: 20.6) if they are male and for a further 23.2 years (2010: 23.1) if they are female. For a member who retires in 2030 at age 65, the assumptions are that they will live on average for a further 22.6 years (2010: 22.5) after retirement if they are male and for a further 25.0 years (2010: 24.9) after retirement if they are female.

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each actual asset allocation for the Fund at 3 March 2011 (rounded to the nearest 0.1% per annum).

Notes to the consolidated financial statements At 3 March 2011

32 Retirement benefits (continued)

Defined benefit schemes (continued)

The main valuation assumptions were that the return on investments would be 3.25% (2010: 3.30%) per annum above inflation

The amounts recognised in the income statement in respect of defined benefit schemes are as follows

| | 2010/11 £m | 2009/10 £m |
|--------------------------------------------|---------------|---------------|
| Current service cost | - | 4.5 |
| Curtailements | - | (4.0) |
| Recognised in arriving at operating profit | - | 0.5 |
| Expected return on scheme assets | (82.5) | (70.5) |
| Interest cost on scheme liabilities | 94.0 | 86.0 |
| Other finance cost (note 8) | 11.5 | 15.5 |

The amounts taken to the consolidated statement of comprehensive income are as follows

| | 2010/11 £m | 2009/10 £m |
|----------------------------------------|---------------|---------------|
| Actual return on scheme assets | 42.9 | 243.8 |
| Less: expected return on scheme assets | (82.5) | (70.5) |
| Other actuarial gains and losses | (11.8) | (369.0) |
| | (51.4) | (195.7) |

The current service cost has been included in administrative expenses. Actuarial gains and losses have been recognised in the consolidated statement of comprehensive income.

The amounts recognised in the balance sheet are as follows

| | 2011 £m | 2010 £m |
|----------------------------------------------|------------|------------|
| Present value of defined benefit obligations | (1,745.0) | (1,715.0) |
| Fair value of scheme assets | 1,257.0 | 1,281.0 |
| Liability recognised in the balance sheet | (488.0) | (434.0) |

During the year the accounting deficit increased from £434.0m at 4 March 2010 to £488.0m at 3 March 2011. The actual returns on assets over the period have been lower than expected based on the expected rate of return and the asset value at the start of the period.

The actual pension increase in February 2011 was higher than the assumption at the start of the period. This has led to an increase in the defined benefit obligation at 3 March 2011. This was somewhat offset by a modest gain as a result of changes in other financial assumptions from the beginning to the end of the period.

Changes in the present value of the defined benefit obligation are as follows

| | 2011 £m | 2010 £m |
|---------------------------------------------------------------------------|------------|------------|
| Opening defined benefit obligation | 1,715.0 | 1,340.0 |
| Current service cost | - | 4.5 |
| Net interest cost | 94.0 | 86.0 |
| Actuarial losses on scheme liabilities | 11.8 | 369.0 |
| Contributions from scheme members | - | 0.5 |
| Benefits paid | (75.6) | (75.0) |
| Curtailements | - | (4.0) |
| Benefits settled by the Company in relation to an unfunded pension scheme | (0.2) | (6.0) |
| Closing defined benefit obligation | 1,745.0 | 1,715.0 |

32 Retirement benefits (continued)

Defined benefit schemes (continued)

Changes in the fair value of the scheme assets are as follows

| | 2011 £m | 2010 £m |
|--------------------------------------------|------------|------------|
| Opening fair value of scheme assets | 1,281.0 | 1,107.0 |
| Expected return on scheme assets | 82.5 | 70.5 |
| Actuarial (losses)/gains on scheme assets | (39.6) | 173.3 |
| Contributions from scheme members | - | 0.5 |
| Contributions from employer | 1.8 | 4.7 |
| Additional contributions from Moorgate SLP | 6.9 | - |
| Benefits paid | (75.6) | (75.0) |
| Closing fair value of scheme assets | 1,257.0 | 1,281.0 |

The analysis of the scheme assets and the expected rate of return at the balance sheet date were as follows

| | Expected return | | Fair value of assets | |
|------------------|-----------------|-----------|----------------------|------------|
| | 2011 % | 2010 % | 2011 £m | 2010 £m |
| Equities | 8.2 | 8.2 | 696.2 | 673.5 |
| Government bonds | 4.5 | 4.5 | 124.0 | 163.9 |
| Corporate bonds | 5.4 | 5.4 | 302.1 | 332.9 |
| Property | 7.0 | 7.0 | 41.6 | 35.9 |
| Cash | 4.5 | 4.5 | 93.1 | 74.8 |
| | | | 1,257.0 | 1,281.0 |

History of experience gains and losses

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---------------------------------------------------|------------|------------|------------|------------|------------|
| Present value of defined benefit obligations | (1,745.0) | (1,715.0) | (1,340.0) | (1,405.0) | (1,562.0) |
| Fair value of scheme assets | 1,257.0 | 1,281.0 | 1,107.0 | 1,372.0 | 1,366.0 |
| Liability recognised in the balance sheet | (488.0) | (434.0) | (233.0) | (33.0) | (196.0) |
| Experience adjustments on scheme liabilities (£m) | (25.8) | (3.0) | (7.5) | (7.5) | (6.0) |
| Percentage of scheme liabilities (%) | (5.3%) | (3.2%) | (1.8%) | (0.2%) | (1.4%) |
| Experience adjustments on scheme assets (£m) | (39.6) | 173.0 | (338.0) | (66.5) | 9.5 |
| Percentage of scheme assets (%) | (3.1%) | (13.5%) | (30.5%) | (4.8%) | (0.7%) |

The cumulative amount of actuarial gains and losses recognised since 4 March 2004 in the Group statement of comprehensive income is £(437.0)m (2010 £(385.6)m)

The assumptions in relation to discount rate and mortality have a significant effect on the measurement of scheme liabilities. The following table shows the sensitivity of the valuation to changes in these assumptions

| | (increase)/decrease in liability £m |
|-------------------------------------------------|----------------------------------------|
| 0.25% increase to discount rate | 70.0 |
| Additional one year increase to life expectancy | (55.0) |

33 Related party disclosure

The Group's principal subsidiaries are listed in the following table

| Principal subsidiaries | Principal activity | Country of incorporation | % equity interest and votes held | |
|-------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------|----------------------------------|-------|
| | | | 2011 | 2010 |
| Whitbread Group PLC | Hotels and restaurants | England | 100.0 | 100.0 |
| Premier Inn Hotels Limited | Hotels | England | 100.0 | 100.0 |
| Whitbread Restaurants Limited | Restaurants | England | 100.0 | 100.0 |
| Premier Inn Limited | Hotels | England | 100.0 | 100.0 |
| Costa Limited | Operators of coffee shops and roasters and wholesalers of coffee beans | England | 100.0 | 100.0 |
| Yueda Costa (Shanghai) Food & Beverage Management Company Limited | Operators of coffee shops | China | 51.0 | 51.0 |
| Coffeeheaven International Limited | Operators of coffee shops in eastern Europe | England | 100.0 | 100.0 |
| Coffee Nation Limited | Operators of customer facing espresso based coffee vending machines | England | 100.0 | - |

Notes to the consolidated financial statements At 3 March 2011

33 Related party disclosure (continued)

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held by Whitbread Group PLC. All principal subsidiary undertakings have the same year end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year end of 31 December as required by Chinese legislation and the recently acquired Coffee Nation Limited whose year end will be aligned with that of the Group. All the above companies have been included in the Group consolidation. The companies listed above are those which materially affect the amount of profit and the assets of the Group.

| Related party | Sales to related party £m | Amounts owed by related party £m | Amounts owed to related party £m |
|----------------------------------------------------------------|------------------------------|----------------------------------------|----------------------------------------|
| Joint ventures | | | |
| 2010/11 | 1.8 | 0.3 | – |
| 2009/10 | 0.7 | 0.5 | – |
| Associate | | | |
| 2010/11 | 3.1 | – | 2.5 |
| 2009/10 | 2.5 | 0.5 | 2.5 |
| Compensation of key management personnel (including directors) | | | |
| | | 2010/11 £m | 2009/10 £m |
| Short-term employee benefits | | 6.0 | 5.1 |
| Post employment benefits | | 0.3 | 5.4 |
| Share-based payments | | 4.8 | 7.4 |
| | | 11.1 | 17.9 |

Associate

For details of the Group's investment in associate see note 17.

Joint ventures

For details of the Group's investments in joint ventures see note 16.

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 3 March 2011, the Group has raised a provision for doubtful debts relating to amounts owed by related parties of £0.2m (2010: £nil). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with other related parties

Details of transactions with directors are detailed in the Remuneration report on pages 11 to 18.

34 Events after the balance sheet date

A final dividend of 33.25p per share (2010: 28.35p) amounting to a dividend of £58.6m (2010: £49.7m) was recommended by the directors at their meeting on 27 April 2011. A scrip alternative will be offered. These financial statements do not reflect this dividend payable.

Company accounts 2010/11

Directors' responsibility for the Company financial statements/audit report

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report to the members of Whitbread PLC

We have audited the parent company financial statements of Whitbread PLC for the year ended 3 March 2011 which comprise parent company Balance Sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out above, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial information in the Whitbread PLC Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on financial statements

In our opinion the parent company financial statements

- give a true and fair view of the state of the Company's affairs as at 3 March 2011,

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

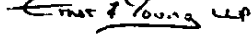
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Other matter

We have reported separately on the Group financial statements of Whitbread PLC for the year ended 3 March 2011.

Les Clifford 
(Senior statutory auditor)
for and on behalf of Ernst & Young
LLP, Statutory Auditor

London

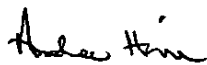
27 April 2011

Balance sheet

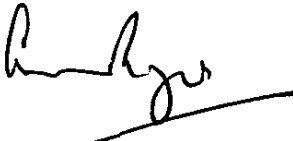
At 3 March 2011

| | Notes | 2011 £m | 2010 £m |
|-----------------------------------------------|-------|----------------|----------------|
| Fixed assets | | | |
| Investment in subsidiaries | 5 | 2,256.1 | 2,256.1 |
| Total non-current assets | | 2,256.1 | 2,256.1 |
| Current assets | | | |
| Debtors amounts falling due within one year | 6 | 266.9 | 324.9 |
| Current liabilities | | | |
| Creditors amounts falling due within one year | 7 | (1.0) | (1.9) |
| Net current assets | | 265.9 | 323.0 |
| Net Assets | | 2,522.0 | 2,579.1 |
| Capital and reserves | | | |
| Share capital | 8 | 147.0 | 146.4 |
| Share premium | 9 | 50.8 | 49.1 |
| Capital redemption reserve | 9 | 12.3 | 12.3 |
| Retained earnings | 9 | 2,520.6 | 2,587.3 |
| Other reserves | 9 | (208.7) | (216.0) |
| Shareholders' funds | | 2,522.0 | 2,579.1 |

Andrew Harrison
Chief Executive



Christopher Rogers
Finance Director



27 April 2011

Notes to the accounts

At 3 March 2011

1 Basis of accounting

The financial statements of Whitbread PLC for the year ended 3 March 2011 were authorised for issue by the Board of Directors on 27 April 2011

The accounts are prepared under the historical cost convention and in accordance with applicable UK Accounting Standards

The Company has taken advantage of the provisions of FRS 1 (revised) which exempts companies which are part of a group for which a consolidated cash flow statement is prepared, from preparing a cash flow statement. The required consolidated cash flow statement has been included within the consolidated financial statements of the Group

2 Summary of significant accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable

3 Profit earned for ordinary shareholders

The profit and loss account of the parent company is omitted from the Company's accounts by virtue of the exemption granted by Section 408 of the Companies Act 2006. The profit earned for ordinary shareholders and included in the accounts of the parent company amounted to £21m (2010 £43m)

4 Dividends paid and proposed

| | 2010/11 | | 2009/10 | |
|-------------------------------------------------|-----------------|--------------|-----------------|--------------|
| | pence per share | £m | pence per share | £m |
| Final dividend relating to the prior year | 28.35 | 49.7 | 26.90 | 46.7 |
| Settled via scrip issue | | (1.7) | | (6.0) |
| Paid in the year | | 48.0 | | 40.7 |
| Interim dividend for the current year | 11.25 | 19.7 | 9.65 | 16.8 |
| Settled via scrip issue | | (6.2) | | (3.8) |
| Paid in the year | | 13.5 | | 13.0 |
| B share dividend | 1.60 | – | 7.13 | 0.1 |
| C share dividend | 1.01 | – | 2.93 | 0.1 |
| | | 0.0 | | 0.2 |
| Total dividends paid | | 61.5 | | 53.9 |
| Proposed for approval at Annual General Meeting | | | | |
| Final dividend for the current year | 33.25 | 58.6 | 28.35 | 49.7 |

A final dividend of 33.25p per share (2010 28.35p) amounting to a dividend of £58.6m (2010 £49.7m) was recommended by the directors at their meeting on 27 April 2011. A scrip alternative will be offered. These financial statements do not reflect this dividend payable

5 Investment in subsidiary undertakings

| | | |
|-----------------------------------------|----------------|----------------|
| Shares at cost | 2011 £m | 2010 £m |
| At 4 March 2010 and 3 March 2011 | 2,256.1 | 2,256.1 |

| Principal subsidiary undertakings | Principal activity | Country of incorporation or registration | Country of principal operations | % of equity and votes held |
|-------------------------------------------------------------------|------------------------------------------------------------------------|------------------------------------------|---------------------------------|----------------------------|
| Whitbread Group PLC | Hotels and restaurants | England | England | 100 |
| Premier Inn Hotels Limited | Hotels | England | England | 100 |
| Whitbread Restaurants Limited | Restaurants | England | England | 100 |
| Premier Inn Limited | Hotels | England | England | 100 |
| Costa Limited | Operators of coffee shops and roasters and wholesalers of coffee beans | England | England | 100 |
| Yueda Costa (Shanghai) Food & Beverage Management Company Limited | Operators of coffee shops | China | China | 51 |
| Coffeeheaven International Limited | Operators of coffee shops in eastern Europe | England | Poland | 100 |
| Coffee Nation Limited | Operators of customer facing espresso based coffee vending machines | England | England | 100 |

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held by Whitbread Group PLC or its subsidiaries. All principal subsidiary undertakings have the same year end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year end of 31 December as required by Chinese legislation and the newly acquired Coffee Nation Limited whose year end will be aligned with that of the Group. The companies listed above are those which materially affect the amount of profit and the assets of the Group.

6 Debtors

| | | |
|-----------------------------------------|--------------|--------------|
| Amounts falling due within one year | 2011 £m | 2010 £m |
| Amounts owed by subsidiary undertakings | 266.9 | 324.9 |
| | 266.9 | 324.9 |

7 Creditors

| | | |
|-------------------------------------|------------|------------|
| Amounts falling due within one year | 2011 £m | 2010 £m |
| Other creditors | 0.2 | 0.2 |
| Corporation tax payable | 0.8 | 1.7 |
| | 1.0 | 1.9 |

Notes to the accounts At 3 March 2011

8 Share capital

| Allotted, called up and fully paid ordinary shares of 76 80p each (2010 76 80p each) | million | £m |
|--------------------------------------------------------------------------------------|---------|-------|
| At 26 February 2009 | 189.1 | 145.3 |
| Issued | 0.5 | 0.4 |
| Issued in lieu of dividends | | |
| 2008/9 final | 0.7 | 0.5 |
| 2009/10 interim | 0.3 | 0.2 |
| At 4 March 2010 | 190.6 | 146.4 |
| Issued | 0.3 | 0.2 |
| Issued in lieu of dividends | | |
| 2009/10 final | 0.2 | 0.1 |
| 2010/11 interim | 0.3 | 0.3 |
| At 3 March 2011 | 191.4 | 147.0 |

At the 2010 Annual General Meeting, the Company was authorised to purchase up to 17.8m of its own shares on the open market

During the year no ordinary shares were acquired (2009/10 nil). No shares were cancelled in the year (2009/10 nil). The remainder are being held in the treasury reserve (note 9).

During the year to 3 March 2011, options over 0.3m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2009/10 0.2m).

Shareholders were offered a scrip alternative to the 2009/10 cash final dividend of 28.35p and to the 2010/11 cash interim dividend of 11.25p. Ordinary shares issued in respect of this totalled 491,875. The issue of shares in lieu of cash dividends is treated as a bonus issue, with the nominal value of the shares being charged against the share premium account.

Preference shares

| Allotted, called up and fully paid shares of 1p each | B Shares | | C Shares | |
|------------------------------------------------------|----------|----|----------|----|
| | million | £m | million | £m |
| At 26 February 2009, 4 March 2010 and 3 March 2011 | 2.0 | - | 1.9 | - |

At 3 March 2011 there were outstanding options for employees to purchase up to 1.3m (2010 1.3m) ordinary shares of 76.80 pence each between 2011 and 2016 at prices between £5.39 and £14.17 per share (2010 between 2010 and 2015 at prices between £5.39 and £14.17 per share).

9 Shareholders' funds

| | Share capital £m | Share premium £m | Capital redemption reserve £m | Retained earnings £m | Treasury shares £m | Total £m |
|-------------------------------|---------------------|---------------------|----------------------------------|-------------------------|-----------------------|-------------|
| At 26 February 2009 | 145.3 | 46.1 | 12.3 | 2,636.9 | (216.0) | 2,624.6 |
| Ordinary shares issued | 0.4 | 3.7 | - | - | - | 4.1 |
| Scrip dividends | 0.7 | (0.7) | - | 9.8 | - | 9.8 |
| Profit for the financial year | - | - | - | 4.3 | - | 4.3 |
| Equity dividends | - | - | - | (63.7) | - | (63.7) |
| At 4 March 2010 | 146.4 | 49.1 | 12.3 | 2,587.3 | (216.0) | 2,579.1 |
| Ordinary shares issued | 0.2 | 2.1 | - | - | - | 2.3 |
| Transfer of shares | - | - | - | (7.3) | 7.3 | - |
| Scrip dividends | 0.4 | (0.4) | - | 7.9 | - | 7.9 |
| Profit for the financial year | - | - | - | 2.1 | - | 2.1 |
| Equity dividends | - | - | - | (69.4) | - | (69.4) |
| At 3 March 2011 | 147.0 | 50.8 | 12.3 | 2,520.6 | (208.7) | 2,522.0 |

The movement in treasury shares during the year is set out in the table below

| | Treasury shares held by Whitbread PLC million £m | |
|-----------------------------|--------------------------------------------------------|-------|
| At 4 March 2010 | 14.7 | 216.0 |
| Transferred during the year | (0.5) | (7.3) |
| At 3 March 2011 | 14.2 | 208.7 |

10 Related parties

The Company has taken advantage of the exemption given in FRS 8 not to disclose transactions with other Group companies that are wholly owned

11 Contingent liabilities

Whitbread PLC is a member of Whitbread Group PLC VAT group. All members are jointly and severally liable for the liability. At the balance sheet date the Group liability stood at £20.5m (2010: £68.3m)

Analysis of shares

Analysis of shares at 3 March 2011

| Band | Number of holders | % of holders | Number of shares | % of share capital |
|------------------------------|--------------------------|---------------------|-------------------------|---------------------------|
| 1 - 100 | 26,282 | 50.10 | 972,241 | 0.51 |
| 101 - 500 | 18,309 | 34.90 | 4,443,265 | 2.32 |
| 501 - 1,000 | 4,358 | 8.31 | 3,075,242 | 1.61 |
| 1,001 - 5,000 | 2,646 | 5.04 | 4,833,972 | 2.53 |
| 5,001 - 10,000 | 218 | 0.42 | 1,516,799 | 0.79 |
| 10,001 - 50,000 | 316 | 0.60 | 7,751,911 | 4.05 |
| 50,001 - 100,000 | 90 | 0.17 | 6,560,884 | 3.43 |
| 100,001 - 500,000 | 168 | 0.32 | 37,157,767 | 19.41 |
| 500,001 - 1,000,000 | 35 | 0.07 | 23,633,957 | 12.35 |
| 1,000,001 - 5,000,000 | 30 | 0.06 | 63,241,477 | 33.04 |
| 5,000,001+ | 4 | 0.01 | 38,214,691 | 19.96 |
| Total | 52,456 | 100.00 | 191,402,206 | 100.00 |

Shareholder services

For further information about the Company and its businesses please visit the Whitbread website at www.whitbread.co.uk

Registrars

Capita Registrars
Whitbread Share Register
34 Beckenham Road
Beckenham
Kent
BR3 4TU

The website address is
www.capitaregistrars.com

For enquiries regarding your shareholding please telephone 0844 855 2327 from the UK and +44(0)20 8636 3400 from outside the UK, or email whitbread@capitaregistrars.com

You can also view up-to-date information about your holdings by visiting www.whitbread-shares.com

Please ensure that you advise Capita promptly of any change of address

Scrp dividend scheme

The scheme enables you to increase your shareholding in the Company by electing to receive all dividends in new shares. Full details are available from the registrars at the address given above

Dividend payment by BACS

We can pay your dividends direct to your bank or building society account using the Bankers' Automated Clearing Service (BACS). This means that your dividend will be in your account on the same day we make the payment. Your tax voucher will be posted to your home address. If you would like to use this method of payment please ring the registrars on 0844 855 2327

Sharegift

If you have a small number of Whitbread PLC shares, with a value that makes it uneconomical to sell them, you may donate the shares to charity through the Sharegift scheme operated by the Orr Mackintosh Foundation. Further information on Sharegift can be obtained from their website www.sharegift.org or by calling 020 7930 3737

Capital gains tax

Market values of shares in the Company as at 31 March 1982 were as follows

'A' limited voting shares of 25p each 103 75p
'B' limited shares of 25p each 103 75p

Whitbread has had discussions with the Inland Revenue (now HMRC) concerning the capital gains tax cost of Whitbread shares following the reduction of capital on 10 May 2001. It is confirmed that the market value of each Whitbread share on 10 May 2001 for these purposes was 606 5p and the market value of each Fairbar share was 230p

For the purposes of calculating UK tax on chargeable gains which may arise on a disposal of shares in the Company, subsequent alterations to the Company's capital should be taken into account. In particular, the special dividend and share consolidation in May 2005, the share consolidation and B share issue effected in June 2006 and the share consolidation and C share issue in January 2007 should be considered in accordance with the information provided in the related shareholder circulars. Further information on capital gains tax allocations in relation to the B and C share issues can be found in the investors/private shareholders section of the Company's website www.whitbread.co.uk

Unsolicited mail

We are aware that some shareholders have had occasion to complain of the use, by outside organisations, of information obtained from Whitbread's share register. Whitbread, like other companies, cannot by law refuse to supply such information provided that the organisation concerned pays the appropriate statutory fee

If you are a resident in the UK and wish to stop receiving unsolicited mail then you should register with the Mailing Preference Service, telephone 020 7291 3310 or you may prefer to write to The Mailing Preference Service Freepost 22, London W1E 7EZ

General Counsel and Company Secretary
Simon Barratt

Registered Office

Whitbread PLC
Whitbread Court
Houghton Hall Business Park
Porz Avenue
Dunstable
Bedfordshire
LU5 5XE

Shareholder enquiries
0844 855 2327

Share dealing service

Capita Share Dealing Services
Tel 0871 664 0446 (calls cost up to 10p per minute plus network extras, lines are open 8am to 4 30pm, Monday to Friday)
www.capitadeal.com

These details have been provided for information only and any action you take is at your own risk. If you are in any doubt about what action to take please consult your own financial adviser. Should you not wish to use these services you could find a broker in your local area on the internet or enquire about share dealing at any high street bank or building society. The availability of this service should not be taken as a recommendation to deal

Financial diary - 2011/12 (dates subject to confirmation)

| | |
|-----------------|---------------------------------------|
| 28 April | Results announcement |
| 11 May | Ex dividend date for final dividend |
| 13 May | Record date for final dividend |
| 21 June | AGM at QEII Conference Centre |
| 13 July | Payment of final dividend |
| 1 September | Half year-end |
| 18 October | Announcement of half year results |
| 26 October | Ex dividend date for interim dividend |
| 28 October | Record date for interim dividend |
| 10 January 2012 | Payment of interim dividend |
| 1 March 2012 | End of financial year |

www.whitbread.co.uk

Designed by Columns Design

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