

# Annual Report and Accounts **2011/12**

Company No 4120344



EAT SLEEP & DRINK  
**WHITBREAD**

---

# Contents

- 02** Directors' report
- 06** Corporate governance report
- 13** Remuneration report

## **Consolidated accounts 2011/12**

---

- 24** Directors' responsibility for the consolidated financial statements/audit report
- 26** Consolidated income statement
- 27** Consolidated statement of comprehensive income
- 28** Consolidated statement of changes in equity
- 29** Consolidated balance sheet
- 30** Consolidated cash flow statement
- 31** Notes to the consolidated financial statements

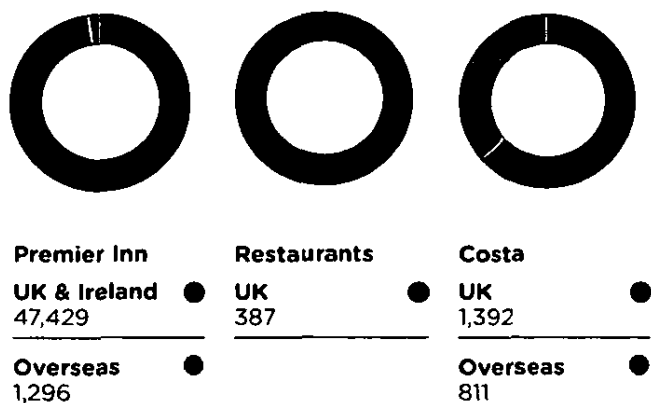
## **Company accounts 2011/12**

---

- 72** Directors' responsibility for the Company financial statements/audit report
  - 73** Balance sheet
  - 74** Notes to the accounts
  - 78** Shareholder services
-

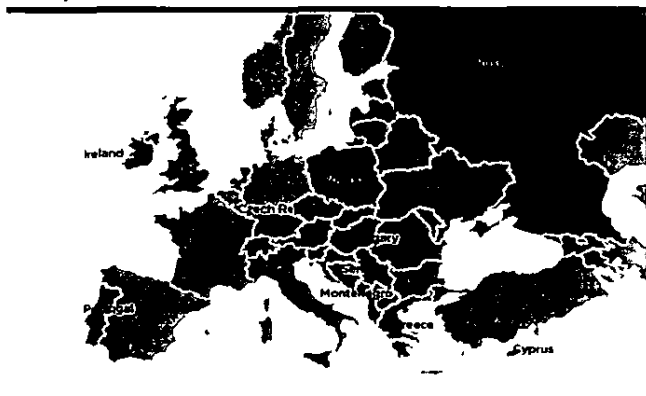
# Directors' report

## Number of Premier Inn rooms, restaurants and Costa stores in the UK and overseas

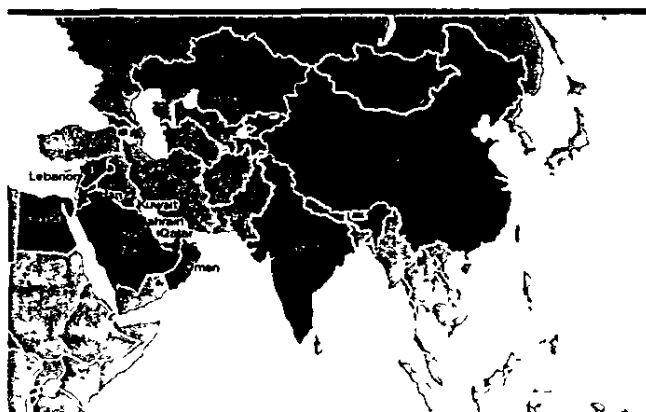


## Geographical location of operations

### Europe



### Asia and the Middle East



## The directors present their report and accounts for the year ended 1 March 2012.

Certain information required for disclosure in this report is provided in other appropriate sections of the Annual Report and Accounts. These include the business review, the corporate governance and remuneration reports and the Group financial statements and notes to those 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, two hotels in India, one hotel in Abu Dhabi and three hotels in Dubai via a joint venture. Costa operates coffee shops in 25 overseas 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 are set out on pages 2 to 21 of the Annual Report. Details of the Company's WINcard, containing the key performance indicators can be found on pages 8, 10, 14, 16 and 17 of the Annual Report.

### Results and dividends

<b>Group profit before tax and exceptional items</b>	£303.5 million
<b>Group profit before tax and after exceptional items</b>	£305.8 million
<b>Interim dividend paid on 10 January 2012</b>	17.50p per share
<b>Recommended final dividend</b>	33.75p per share
<b>Total dividend for the year</b>	51.25p per share

Subject to approval at the Annual General Meeting, the final dividend will be payable on 13 July 2012 to the shareholders on the register at the close of business on 18 May 2012.

### Board of directors

The directors at the date of this report are listed on page 22 of the Annual Report. All except Susan Hooper and Susan Taylor Martin served throughout the year. Susan Hooper joined the Board on 1 September 2011 and Susan Taylor Martin joined on 1 January 2012.

Details of the executive directors' service contracts are given in the remuneration report on page 19. None of the non-executive directors has a service contract.

Details of directors' training are given in the corporate governance report on page 8.

### Powers of 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 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.

### 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.

In accordance with the UK Corporate Governance Code 2010 it has been decided that all directors will stand for annual re-election at each AGM.

The Company may by special resolution remove any director before the expiration of his or her term of office. Directors automatically stop being a director if

- they give the Company a written notice of resignation,
- they give the Company a written notice in which they offer to resign and the other directors decide to accept the offer,
- 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,
- they are or have been suffering from mental or physical ill health and the directors pass a resolution removing the director from office,
- they have missed directors' meetings (whether or not an alternate director appointed 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,
- a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally,
- they are prohibited from being a director under any applicable legislation, or
- they cease to be a director under any applicable legislation or are removed from office under the Company's Articles of Association.

### 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.

### 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.

### Directors' share interests

	Held at 01/03/2012	Held at 03/03/2011
<b>Anthony Habgood*</b>	50,797	50,797
<b>Andy Harrison</b>	191,106	161,673
<b>Patrick Dempsey</b>	24,957	24,957
<b>Christopher Rogers</b>	50,000	50,000
<b>Richard Baker</b>	8,198	4,966
<b>Wendy Becker</b>	6,000	6,000
<b>Ian Cheshire</b>	300	-
<b>Susan Hooper</b>	-	- <sup>1</sup>
<b>Simon Melliss</b>	3,000	1,500
<b>Susan Taylor Martin</b>	-	- <sup>1</sup>
<b>Stephen Williams</b>	9,440	4,258

<sup>1</sup> At date of appointment

\*The share interests shown above include the non-beneficial interests of Anthony Habgood in 522 shares

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 has been no change to the interests shown above between the end of the financial year and the date of this report.

### 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 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.

Where a shareholder with at least a 0.25% interest in a class of shares has been served with a disclosure notice in relation to a particular holding of shares and has failed to provide the Company with information concerning those shares, those shares will no longer give that shareholder any right to vote at a shareholders' 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,
- transfers cannot be in favour of more than four joint holders, and
- the directors can refuse to register the transfer of an uncertificated share in the circumstances set out in the uncertificated securities rules (as defined in the Company's Articles of Association)

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 155p per B share and 159p 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 155p per B share and 159p 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

**Purchase of own shares**

The Company is authorised to purchase its own shares in the market. Approval to renew this authority will be sought from the shareholders at the 2012 AGM

The Company did not purchase any of its own shares during the year. 14.1 million shares (representing 7.35% of the total called up share capital at the beginning of the year) are held as treasury shares (3 March 2011: 14.3 million). During the course of the year, the Company transferred 143,000 shares from treasury to the Employee Share Ownership Trust for the future satisfaction of awards under the Long Term Incentive Plan

**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

**Major interests**

As at the end of the financial year, 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
<b>BlackRock</b>	17,184,930	9.73%
<b>Schroders PLC</b>	10,531,421	5.35%
<b>Legal &amp; General</b>	6,960,723	3.97%
<b>Standard Life Investments</b>	7,233,278	4.08%
<b>Capital Group International, Inc</b>	5,986,397	3.38%

No changes to the above have been disclosed to the Company in accordance with rule 5 of the Disclosure and Transparency Rules between the end of the financial year and 25 April 2012

**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. Full and fair consideration is given to applications for employment made by disabled persons, having regard to their aptitudes and abilities. 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. In addition, our employee opinion survey 'Your Say', is conducted twice a year to provide insight in to the views of employees

Our employees are actively encouraged to take part in our Sharesave scheme, which is available to all employees and offers an option price discounted by 20%

Regular internal communications are made to all employees to ensure that they are kept well informed of the performance of the Group and of financial and economic factors that may affect the Company's performance

Further information on employee involvement can be found in the section 'Team engagement' on pages 9 to 11 of the Annual Report

**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

### 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

### 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

### Supplier payment policy

The Company has no trade creditors (3 March 2011 nil) The Group has a standard term of 60 days in respect of payments to suppliers Where this standard term does not apply, operating companies are responsible for agreeing terms and conditions for their business transactions when orders for goods and services are placed, so that suppliers are aware of the terms of payment and the relevant terms are included in contracts where appropriate 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 47 days' purchases outstanding at 1 March 2012 (3 March 2011 48 days) based on the trade creditors at that date and purchases made during the year

### Charitable and political donations

No direct charitable donations have been made by the Company Costa Limited, a subsidiary of the Company, made a direct donation of £368,014 to the Costa Foundation Further details about the Costa Foundation can be found on pages 11 and 17 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 More information on charitable activities can be found on page 17 of the Annual Report

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

### Auditor

Ernst & Young LLP have expressed their willingness to continue in office as auditor of the Company and a resolution proposing their re-appointment will be put to shareholders at the 2012 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 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 21 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 review on pages 18 and 19 of the Annual Report 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)

A combination of the strong operating cash flows generated by the business and the significant headroom on its credit facilities support the directors' view that the Group has sufficient funds available for it to meet its foreseeable working capital requirements The directors have concluded that the going concern basis remains appropriate

### Annual General Meeting

The AGM will be held at 2 00pm on 19 June 2012 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE The Notice of Meeting is enclosed with this report for shareholders receiving hard copy documents, and available at [www.whitbread.co.uk](http://www.whitbread.co.uk) for those who elected to receive documents electronically At the 2012 AGM, all voting will be by poll Electronic handsets will be utilised and results will be displayed on the screen at the meeting

Approved by the Board on 25 April 2012 and signed

### Simon Barratt

General Counsel and Company Secretary

Registered Office  
Whitbread PLC  
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 21 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

## Introduction from Anthony Habgood, Chairman

As I mentioned in my statement on page 3 of the Annual Report, I believe that corporate governance is not simply something for the Board to consider as an agenda item at our monthly meetings. For me, corporate governance is something that touches all aspects of our business and affects all of our employees in many different ways.

At an executive level this includes managers ensuring that decisions are taken by the right people in the Company in accordance with the schedule of matters reserved to the Board and other relevant policies.

For our employees this includes having access to our whistleblowing system so that any potential problems can be raised in confidence through independent channels.

Although corporate governance flows through all of our operations, the Board takes responsibility for leading on high standards of accountability and ethical behaviours. During this year key governance activities have included:

- a review of the Company's compliance with the updated UK Corporate Governance Code which came into force for financial years commencing on or after 29 June 2010,
- an evaluation of the Board by an independent external consultant,
- a talent review and succession plan for key executive roles,
- a Nomination Committee review of the Board composition and completion of a recruitment process resulting in the appointment of two new non-executive directors, and
- the Audit Committee's review of the external and operational audits.

I am proud of our core commitment to high standards of governance as this is key to supporting our financial performance and protecting your Company. Simon Barratt, our General Counsel and Company Secretary, provides further details below on how Whitbread complied this year with corporate governance requirements.

## Simon Barratt, General Counsel and Company Secretary

The new UK Corporate Governance Code ('CG Code') came into effect in 2010 and 2011/12 was the first financial year in which it was applicable to Whitbread. This is the key source of guidance on corporate governance matters. In light of the CG Code, and as part of our commitment to high standards of governance, we undertook a thorough review of Whitbread's corporate governance arrangements including reviewing our:

- overall compliance with the CG Code with respect to business and corporate practices,
- matters reserved to the Board, and
- terms of reference for each of the three Board committees.

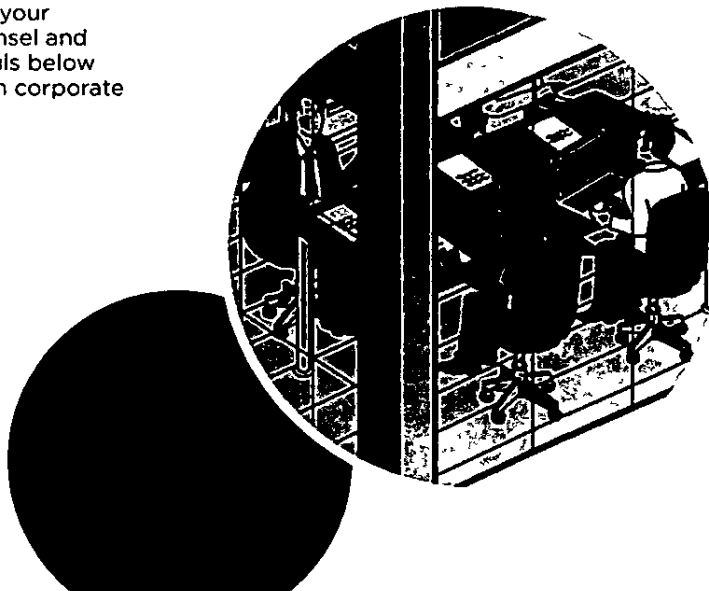
The results of this review were presented at the January Board meeting and formally adopted by the Board. During the year the Company complied with all provisions set out in the CG Code.

Details of how Whitbread has applied the main and supporting principles of the CG Code with regard to remuneration can be found in the remuneration report on pages 13 to 22. Details of the membership and activities of the Remuneration Committee can be found on page 15.

In addition to this, a new global code of conduct has been adopted to take into account the 2010 UK Bribery Act and has been briefed to employees.

The information below sets out Whitbread's compliance in the following areas:

- The Board,
- Shareholder relations,
- Internal control, and
- Board committees.

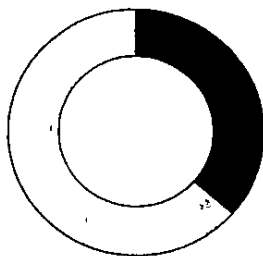


## The Board

### Who is on the Board of directors?

There are eleven members of the Board including the Chairman, Chief Executive and Senior Independent Director

### Composition of the Board



<b>Chairman</b>	1 ●
<b>Executive directors</b>	3 ●
<b>Independent non-executive directors</b>	7 ●

As announced in April 2012, Christopher Rogers will become Managing Director of Costa in August 2012. He will remain a director when he takes on his new role and, as the Board intends to appoint a new Group Finance Director, it is anticipated that the number of executive directors will increase at that time.

Details of each of the directors can be found by folding out page 23 of the Annual Report. In that section, we have provided information on the mix of skills and experience represented on the Board. The Board brings together individuals with a diverse range of experience and expertise, which contributes to a positive culture of mutual respect and constructive challenge.

### What were the key activities of the Board this year?

The Board holds meetings at monthly intervals during the year and on an ad hoc basis as and when required. During the year, 11 meetings were held. Attendance at meetings by directors is set out in the chart on page 12. A set of Board papers, including monthly financial and trading reports, is circulated in advance of each meeting so that directors have sufficient time to review them and arrive at the meeting fully prepared.

At each meeting, the Board starts with a review of the minutes from the previous meeting, matters arising and progress on action points. This is followed by reports from the Chief Executive and the Finance Director describing the operational and functional performance. Reports from specific parts of the business and new business opportunities are presented before a review of the secretariat report which sets out any updates on best practice and corporate legislation.

The Board has a rolling agenda which sets out matters to be considered throughout the year. This allows all directors to contribute to the setting of the agenda. Having a rolling agenda ensures that there is a structured approach to the consideration of recurring issues with such items being evenly spread across the calendar. This facilitates good management of the agenda providing sufficient time for the Board to discuss ad hoc items that arise during the year without any loss of focus on standing items. The rolling agenda is structured such that the Board gives its attention to each area of the business in turn so that a strong understanding of the entire Company is maintained. This year, the Board has considered a range of matters, details of which can be found on page 23 of the Annual Report.

There is a schedule of matters reserved exclusively to the Board. These matters include:

- approval of Group financial statements and the preliminary announcement of half and full year results,
- changes relating to the Group's capital structure,
- the annual budget and the Group's business plan,
- approving acquisitions and disposals over a certain threshold value,
- interim dividends and recommendation of final dividends,
- establishment of Board committees, terms of reference and membership of Board committees, and
- maintaining sound risk management and internal control systems.

The schedule of matters reserved was reviewed at the January 2012 Board meeting and was updated to take account of best practice guidelines. The full schedule of matters reserved to the Board is available on our website.

### How and why did the Board appoint new non-executive directors this year?

This year, a routine review of Board composition led to the conclusion that two new non-executive directors could enhance the Board's performance. The starting point for this review was for the Nomination Committee to determine the additional skills and experience necessary. This was then compared with the range of expertise of current Board members to identify any areas which required increased representation. The Committee then prepared a description of the capabilities required.

The Committee recommended that the Board could be strengthened with the appointment of candidates with experience of finance, hospitality, consumer-branding, digital media and international businesses. An external search consultancy, Spencer Stuart, was engaged and a number of candidates were identified. Selected candidates met with the Nomination Committee. Further discussion by the Committee led to a recommendation to the Board for the appointment of Susan Hooper and Susan Taylor Martin.

**How does the Board keep up to date with new developments?**

A monthly report, prepared by the Company Secretary, is presented at each Board meeting. This report provides updates on corporate legislation and best practice on matters including corporate governance.

Formal training events were attended by Board members during the year on a range of issues including workshops on cyber security, managing risk and corporate governance. Investor relations and market updates were also considered by the Board.

All directors have access to independent professional advice at the Company's expense. Directors serving on Board committees confirmed they are satisfied that they receive sufficient resources to enable them to undertake their duties effectively. Each director has access to the Company Secretary for advice on governance.

**How does the Board identify and consider directors' conflicts of interest?**

A formal process is undertaken each year in February when each director discloses to the Board details of their external interests including any other directorships which they hold.

The list of interests is assessed by the Board to determine whether the director's ability to act in the best interests of the Company could be compromised. If there are no such potential or actual conflicts, the external interests are authorised by the Board. All authorisations are for a period of 12 months. No director is counted as part of a quorum in respect of the authorisation of his or her own conflict situation.

It is recognised that all organisations are potential customers of Whitbread and, in view of this, the Board has authorised all directors' current external directorships.

**Case study with Susan Taylor Martin  
Induction process**

The induction process was tailored for Susan and focused on Whitbread's businesses.

Initial meetings were held with the Chairman, Chief Executive, the Group HR Director, the Finance Director and the Company Secretary, followed by time with:

- the Managing Director of Hotels & Restaurants, visiting Premier Inn sites,
- the Managing Director of Restaurants, visiting sites for each of the restaurant brands,
- the Managing Director of Costa, visiting Costa outlets, and
- the Group's lawyers and brokers.

Training and development goes well beyond the induction process and is an ongoing process for all Board members. Further training opportunities will be offered to Susan depending on her needs. The Chairman facilitates training for all Directors in this way to ensure that the Board is able to perform at an optimum level.

**How is the independence of directors assessed?**

The Board has a majority of independent non-executive directors. Independence is assessed annually against the CG Code. None of the provisions listed in the CG Code which may compromise independence apply to any of Whitbread's non-executive directors.

**Does the Company have appropriate insurance cover in respect of legal action against its directors?**

The Company has appropriate directors & officers liability insurance in place. In addition to this, the Company provides an indemnity for directors against the costs of defending certain legal proceedings. These are reviewed periodically.

**What are each of the Board members responsible for?**

All Board members have responsibilities in the areas of strategy, performance, risk and people. Specific duties of the Chairman, Chief Executive and Senior Independent Director are set out below.

<b>Chairman</b>	<b>Chief Executive</b>	<b>Senior Independent Director</b>
<ul style="list-style-type: none"> <li>• leadership of the Board and setting its agenda including approval of the Group's strategy, business plans, annual budget and key areas of business importance,</li> <li>• ensuring, through the General Counsel, that the members of the Board receive accurate, timely and clear information,</li> <li>• ensuring a culture of openness and debate around the Board table,</li> <li>• ensuring that Board members understand the views of major investors, and</li> <li>• leading the annual evaluation of the Board, the committees and individual directors.</li> </ul>	<ul style="list-style-type: none"> <li>• optimising the performance of the Company,</li> <li>• ensuring effective communication with shareholders and employees,</li> <li>• the creation of shareholder value by delivering profitable growth and a good return on capital,</li> <li>• ensuring the Company has a strong team of high-calibre executives, and putting in place appropriate management succession and development plans, and</li> <li>• leading the activities of the Whitbread Leadership Forum - a group of the Company's most senior executives.</li> </ul>	<ul style="list-style-type: none"> <li>• being 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,</li> <li>• supporting the Chairman in the delivery of his objectives,</li> <li>• providing a sounding board for the Chairman,</li> <li>• being available to serve as an intermediary for the other directors if necessary, and</li> <li>• leading the evaluation of the Chairman on behalf of the other directors.</li> </ul>

---

### How is performance evaluated?

#### Board and committees

There were three aspects to this year's evaluation

- as in previous years, each director completed a formal questionnaire on the performance of the Board and each of the Board committees,
- the Chairman also met or spoke to all directors on a one-to-one basis, and
- an external evaluation of the Board was facilitated this year by Lorna Parker, an independent consultant and former Managing Director and Partner of Spencer Stuart. As part of this review, Lorna met each of the directors, the Company Secretary and the Group HR Director to discuss the effectiveness of the Board and its processes

The outcome of the review was discussed with the Chairman and Senior Independent Director and then as an agenda item at the Board meeting in March 2012, which was attended by Lorna Parker. The review concluded that there is "an open, supportive, cohesive but challenging and disciplined culture within the board room". All the directors expressed a high degree of satisfaction with their experience on the Board.

### Suggestions for improvement included

- the introduction of a formal annual update from the Company Secretary and auditors on legal or regulatory issues directly affecting the Company,
- holding meetings at Company sites when there are new concepts/developments, and
- holding the planning and review meeting for the Nomination Committee in March each year when confirming the recommendation for re-election of directors

#### Individual directors

The Chairman has one-to-one meetings with each director to discuss their performance

#### Chairman

Every year the Senior Independent Director meets with the non-executive directors without the Chairman present to discuss the performance of the Chairman. The Senior Independent Director also speaks with the executive directors to gain their views before discussing the results of the evaluation with the Chairman.

### Shareholder relations

#### How does the Company interact with shareholders?

---

#### All shareholders

The Company communicates with both institutional and private shareholders through the following means

- the Company's website ([www.whitbread.co.uk](http://www.whitbread.co.uk)), where information and news is regularly updated,
- the Annual Report, which sets out details of the Company's operations and performance over the past financial year and plans for future growth,
- the Annual General Meeting, where all shareholders have the opportunity to vote on the resolutions proposed and to put questions to the executive team, and
- presentations of full and half-year results to analysts and shareholders

In addition, all shareholders are able to contact the Company by email, telephone or post to raise issues. The Company also takes opportunities to interact more directly with institutional and private shareholders. During 2011/12 this included the following

---



---

#### Institutional shareholders

- the Chief Executive and Group Finance Director held meetings with institutional investors following the full year and interim results,
  - the Board received regular updates on the views of major shareholders from the Company's stockbrokers and independent researchers,
  - an 'Investor Day' was organised by Costa, and
  - a consultation was held with major shareholders on the proposed amendments to the LTIP (Long Term Incentive Plan) scheme
- 



---

#### Private shareholders

- live webcast presentations of the annual and interim results,
  - electronic communications with shareholders including use of the online share portal, and
  - executives presented to members of the UK Shareholders' Association
- 

### How are shareholders able to participate in the AGM?

The Notice of AGM and related papers are sent to all shareholders at least 20 working days before the meeting. The Company proposes a separate resolution on each substantially separate issue including a specific resolution to approve the report and accounts. For each resolution, proxy appointment forms provide shareholders with the option to vote in advance of the AGM if they are unable to attend in person. All valid proxy votes received for the AGM are properly recorded and counted by Whitbread's registrars.

As in previous years, all voting by shareholders will be by poll using electronic handsets. The voting results, including proxy votes received, 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 through the regulatory news service.

The information that is required by DTR 7.2.6, relating to the share capital of the Company can be found within the directors' report on pages 25 and 26.

**Internal Control****How 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 2011/12 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 CG Code. A report of the key risks can be found on pages 20 and 21 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 conduct, which is communicated to employees,
- the PwC operational audit team 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 assesses the appropriate areas of risk upon which assurance should be sought. 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 Audit Committee. The Audit Committee considers the principal risks identified by the risk management process which are also considered by the Board and the 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.

**Going concern**

The directors' going concern statement can be found in the directors' report on page 5.

**Business model and strategy**

Information on the Group's business model and strategy can be found in the business review on pages 2 to 21 of the Annual Report.

**Board Committees**

The Board is supported by three committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. The terms of reference for each committee are reviewed annually and updated in line with best practice. They are available in full on the Company's website.

A detailed report from the Chairman of the Remuneration Committee is set out on pages 13 to 22. Summary reports for the Audit and Nomination Committees can be found on page 11 and 12 respectively, followed by details of directors' attendance at meetings during this financial year.

---

## Audit Committee report

### Members of the Audit Committee

Simon Melliss (Chairman)  
Richard Baker  
Wendy Becker  
Susan Hooper  
Susan Taylor Martin  
Simon Barratt (Secretary)

All members of the Committee are independent non-executive directors  
The Board regards Simon Melliss, with his previous experience as Finance Director at Hammerson plc, to have recent and relevant financial experience as required by the CG Code

---

### Key duties (Full terms of reference are available on the Company's website)

Monitor, review and report to the Board on the

- financial statements, risk management system and internal controls, and
- objectivity and effectiveness of the operational auditors and the external auditor

Manage the engagement and review of performance of the external auditor including approval of their remuneration

Hold meetings with external and operational auditors without management being present

Assist the Board in fulfilling its corporate governance and oversight responsibilities

Develop policy on the supply of non-audit services by the external auditor

Review the adequacy and security of the Company's whistleblowing facilities

Review the Company's systems and controls for the prevention of bribery

---

## Audit Committee agenda - 2011/12

### Quarter 1

Review of effectiveness of internal controls  
Review of risk matrix  
Agreed scope of operational audit  
Review of year end items including draft accounts and an update on tax matters  
Review of whistleblowing incidents  
Approval of Audit Committee terms of reference  
Review of 2010/11 financial statements and auditor's report  
Operational audit report on year-end processes  
Meeting of Committee with external auditor without executive directors present

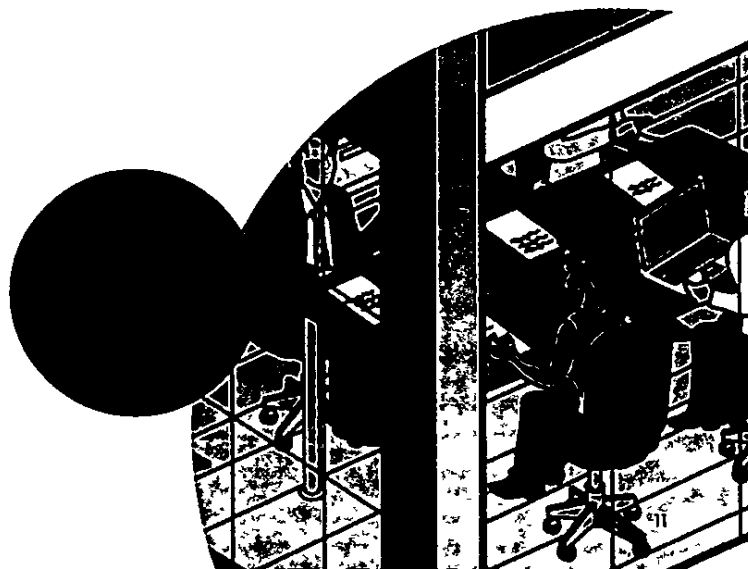
---

### Quarter 3

Approval of interim results for 2011/12  
Interim review of external auditor including review of audit planning report  
Interim review of operational audit  
Tax update  
Meeting of Committee with auditor without executive directors present

---

*A statement relating to non-audit work carried out by the auditor is included in the directors' report on page 5*



**Nomination Committee report**

<b>Members of the Nomination Committee</b>	Anthony Habgood (Chairman) Ian Cheshire Simon Melliss Stephen Williams Simon Barratt (Secretary)
<b>Key duties (Full terms of reference are available on the Company's website)</b>	Review the size, structure and composition of the Board and its committees Manage the selection and appointment process for new directors to be recommended to the Board Agree the recommendation for re-election of directors at the AGM

**Nomination Committee agenda - 2011/12**

<b>Quarter 1</b>	Commenced appointment process for two new non-executive directors Review of committee membership Review of terms of reference Review of directors for re-election at the AGM
<b>Quarter 2</b>	Final decision on the appointment of two new non-executive directors

**How does the Company approach the annual re-election of directors?**

As required by the CG Code, all directors will be subject to re-election at the next AGM. The Nomination Committee has reviewed the contribution and commitment of each member of the Board and has recommended their re-appointment at this year's AGM. Details setting out why each director is deemed to be suitable for re-appointment will be included with the AGM papers circulated to all shareholders.

None of the non-executive directors has been a director for a term longer than six years. If any non-executive director was to serve for more than six years, the Nomination Committee's policy would be to scrutinise their role more closely before recommending re-appointment to ensure that the Board remains fresh and dynamic.

In accordance with the CG Code, none of the executive directors has more than one non-executive directorship in a FTSE-100 company or a chairmanship of a FTSE-100 company.

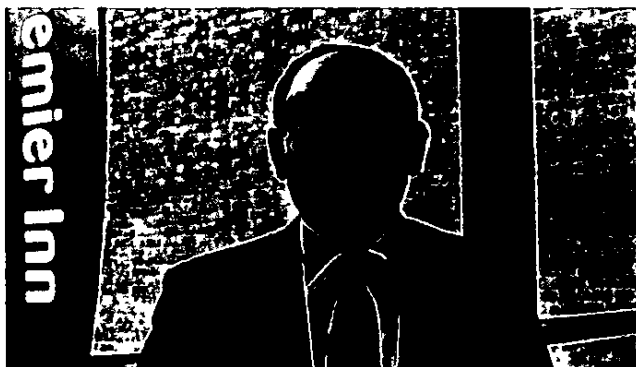
**2011/12 attendance record of Board and Committee members**

<b>Type of Meeting</b>	<b>Board</b>	<b>Audit Committee</b>	<b>Nomination Committee</b>	<b>Remuneration Committee</b>
	Attendance record*	Attendance record	Attendance record	Attendance record
<b>Anthony Habgood</b>	11/11	-	4/4	6/6
<b>Andy Harrison</b>	11/11	-	-	-
<b>Patrick Dempsey</b>	11/11	-	-	-
<b>Christopher Rogers</b>	11/11	-	-	-
<b>Richard Baker</b>	10/11	3/3	-	6/6
<b>Ian Cheshire</b>	8/11	-	-	6/6
<b>Wendy Becker</b>	10/11	3/3	-	6/6
<b>Simon Melliss</b>	10/11	3/3	4/4	-
<b>Stephen Williams</b>	9/11	-	4/4	5/6
<b>Susan Taylor Martin</b>	3/3	-	-	-
<b>Susan Hooper</b>	4/6	-	-	-

Members of the executive team attended committee meetings as appropriate. Anthony Habgood is not formally a member of the Audit Committee, but attended all three meetings during the year.

\*Includes one meeting of the Board, which was held at short notice, to approve a major capital project. The meeting was attended by the Chairman, the three executive directors and Susan Taylor Martin. The other directors were unable to attend due to prior engagements, but all confirmed their agreement to the project by email.

# Remuneration report



## Introduction from Ian Cheshire

This was my first full year as Chairman of the Remuneration Committee. In this report, you will see that we have taken the opportunity to re-define Whitbread's remuneration principles. In doing so we aimed to ensure that remuneration arrangements are aligned with and support the delivery of the Group's business strategy and shareholder value creation.

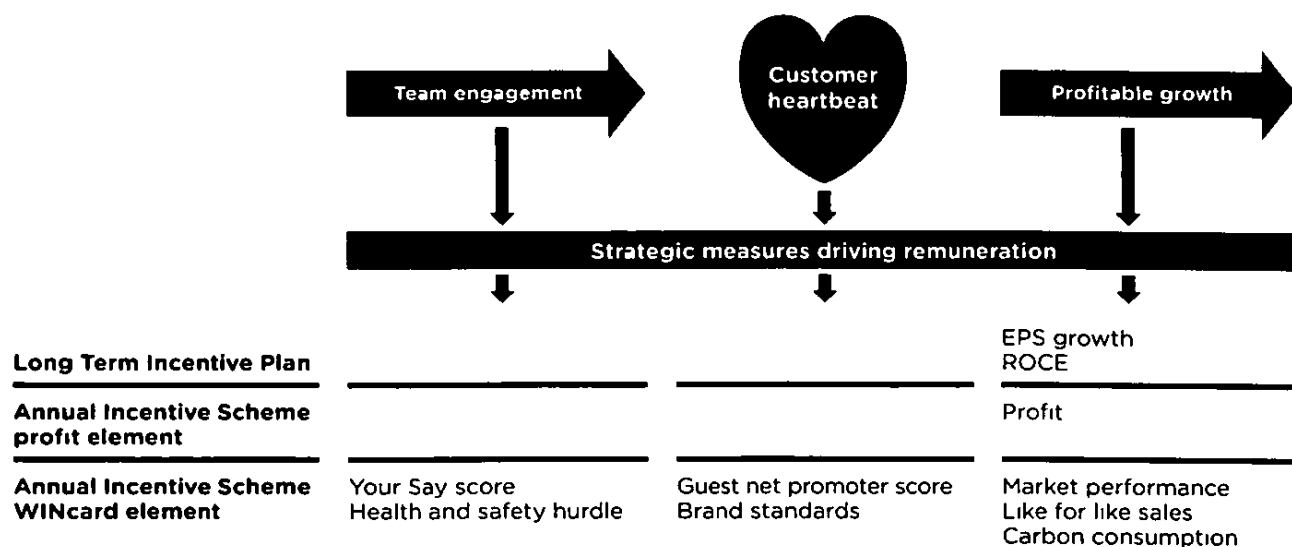
The Whitbread strategy, which is to invest in growing its leading brands, Premier Inn and Costa, has stretching targets which if delivered successfully will create significant value for our shareholders. The Committee believes that the executive team should be rewarded for the achievement of the strategy and therefore incentives should be clearly aligned to delivering earnings growth and returns above our cost of capital. To this end, amendments to the Long Term Incentive Plan (LTIP) have been proposed and are outlined later in this report.

The WINcard is a key element of our remuneration structure. It is designed to ensure that executives are incentivised on both non-financial and financial measures. The customer heartbeat schematic, which is described on page 8 of the Annual Report shows how we intend to deliver our strategic aims by providing a great place to work for our people, so that they care for our customers and provide them with an experience that will make them come back time and time again. The diagram below shows how measures driving remuneration are linked to this model.

## Contents

- 13 Introduction from Ian Cheshire
- 14 2011/12 highlights
- 37 Remuneration Committee governance
- 16 Remuneration principles and structure for 2012/13
- 17 Annual Incentive Scheme
- 18 Long Term Incentive Plan (LTIP)
- 19 Other information relating to executive directors
- 19 The Chairman and the non-executive directors
- 42 Appendices

*Parts of this report have been audited and these are clearly marked as 'audited information'*



**2011/12 highlights****Performance in 2011/12**

The Group had another successful year, with sales growth of 11.2% and pre-tax profits up 11.3%. This profit growth, combined with good return on capital, produced an operating cash inflow which funded reinvestment of £307.9 million in maintaining our estate and the proposed growth in the dividend.

Despite achieving double-digit profit growth, at Group level we did not quite reach our profit target for the year. On the WINcard measures, which are outlined on page 17 we achieved four green scores, one amber score and one red score. You also will see on page 17 that the combination of these results has led to reduced bonus awards to the executive directors under the Annual Incentive Scheme when compared to the prior year.

The performance conditions for the 2009 Long Term Incentive Plan were met in full. There were two independently operating conditions each relating to half of the total award. Whitbread achieved top quartile TSR performance against its comparator group over the last three years, which was a very good result. The 2011/12 EPS target required for full vesting was set, at a time of great economic uncertainty, at 107p. The actual EPS achieved was 134.35p. This represents growth of RPI +9.6% per annum, which is an excellent result in turbulent economic times.

**Remuneration principles review**

During the course of 2011, the Remuneration Committee undertook a review of Whitbread's approach to senior executive remuneration to ensure that the remuneration arrangements were aligned with and supported the delivery of the Group's current business strategy and shareholder value creation. Updated remuneration principles were agreed and details can be found on page 16.

As part of the review it was agreed that the LTIP scheme should be adapted so that it would be more closely aligned to the Group's strategic aims. After consulting with the top 20 shareholders, as well as with the ABI and RREV, we intend to seek approval for changes to the LTIP at the AGM in June 2012, with awards being made under the amended plan soon after the AGM rather than in April under the current arrangements.

**Clawback**

The rules of the Annual Incentive Scheme were amended in November 2011 to allow the Committee, in the exceptional circumstances of a material misstatement of the results on which an award was based, to adjust unvested share awards.

**2012 salary review**

When reviewing the salaries of the executive directors we take into account a range of factors including changes to salaries across the Group, the personal performance of the director measured against agreed objectives, current trading circumstances and market data.

The general level of salary increases across Whitbread in May 2012 will be 2.25%. In a year when levels of inflation are expected to produce budgetary pressure it was decided that a lower increase of 1.5% for members of the Whitbread Directors' Forum (the top 40 executives) would be appropriate. As members of the Whitbread Directors' Forum, the executive directors are eligible for an increase of 1.5%. However, Andy Harrison and Christopher Rogers confirmed to the Committee that they did not wish to receive a salary increase in 2012, so their salaries will be the same as those reported last year.

The basic salaries of the executive directors with effect from 1 May 2012 will be:

<b>Patrick Dempsey</b>	£426,300
<b>Andy Harrison</b>	£717,500
<b>Christopher Rogers</b>	£504,700

**Total remuneration received by executive directors**

The following table shows the total amount of remuneration received by each of the executive directors in 2011/12. This includes their salary and bonus (cash bonus applicable to the 2011/12 financial year and to be paid in May 2012), any cash paid in lieu of pension or other benefits and an amount representing the vesting of any share awards during the year. For deferred equity awarded under the Annual Incentive Scheme in 2009 this is the actual gain made at the point of vesting on 1 March 2012. For the 2009 LTIP this is based on the share price at the close of business on 1 March 2012 as the awards will not become exercisable until after the date of this report. The table does not include share awards made during the year, which are due to vest in 2015.

	<b>Total remuneration received in 2011/12</b>
<b>Patrick Dempsey</b>	£1,981,403
<b>Andy Harrison</b>	£1,159,212
<b>Christopher Rogers</b>	£2,465,252

**Christopher Rogers - new role**

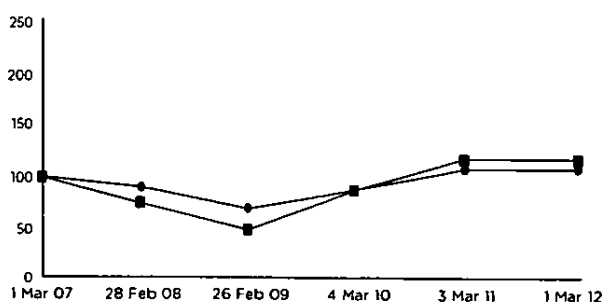
As announced earlier this month, Christopher Rogers will become Managing Director of Costa with effect from 1 August 2012. The Committee considered how this change would impact his remuneration package and agreed that:

- his basic salary will remain unchanged as a result of the change of role,
- the quantum available to him under the Annual Incentive Scheme will be unchanged at 167% of salary, but that the WINcard element will be based on the Costa WINcard results and the profit element will be based on a 50/50 split between Costa PBIT and Group underlying profit, and
- the level of his LTIP award will remain unchanged at 125%.

The changes to the method of calculating awards due under the Annual Incentive Scheme will be made at the half year, with Group performance still being used as the measure in the first half of the year.

**Total shareholder return graph**

Source: Thomson Reuters



The graph looks at the value by 1 March 2012 of £100 invested in Whitbread PLC on 1 March 2007 compared on a consistent basis, with that of £100 invested in the FTSE 100 Index based on 30 trading day average values. It is assumed that dividends are re-invested.

Whitbread PLC ■ FTSE 100 Index ◆

---

## Remuneration Committee - membership, key duties and advisers

<b>Members of the Remuneration Committee</b>	Ian Cheshire (Chairman) Richard Baker Wendy Becker Anthony Habgood Stephen Williams Simon Barratt (Secretary)
<b>Key duties (Full terms of reference are available on the Company's website)</b>	Set the broad policy for the remuneration of the Chairman and the executive directors, Within the terms of the agreed policy, to determine the total individual remuneration package (including bonuses, incentive payments, share awards and other benefits) of the Chairman and each executive director, Monitor the structure and level of remuneration of executive committee members, Approve the design of and determine the targets for incentive schemes, Approve awards to be made to executive directors and other senior executives under incentive schemes, and Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised
<b>Internal advisers</b>	Simon Barratt - General Counsel Louise Smalley - Group HR Director
<b>External advisers</b>	Towers Watson - Remuneration Consultants (appointed by the Committee, a separate part of Towers Watson provides accounting services in relation to the pension fund ) Slaughter and May - Legal Advisers (they also provide legal services to the Company)

## Remuneration Committee agenda - 2011/12

<b>Quarter 1</b>	Approval of 2011 LTIP awards and performance conditions Approval of matching award, as agreed on his appointment, for Andy Harrison Approval of 2011/12 WINcard incentive targets Approval of awards of cash and deferred equity to executive directors under the Annual Incentive Scheme Executive directors' salary review Confirmation of the vesting percentages for the LTIP awards made in 2008 and vesting in 2011 Approval of updated terms of reference Approval of new rules for the Sharesave Scheme, subject to shareholder approval at the AGM Noting of the salary review and incentive payments to executives below Board level
<b>Quarter 2</b>	Discussion about the terms of the planned remuneration review Review of the Chairman's fee
<b>Quarter 3</b>	Approval of senior executive remuneration principles, including the introduction of clawback provisions in the Annual Incentive Scheme Changes to the performance conditions for future LTIP awards, subject to shareholder approval at the AGM Adjustments to the 2011/12 incentive targets to reflect changes to the business during the year, including the acquisition of Coffee Nation
<b>Quarter 4</b>	Approval of a letter to the 20 largest shareholders, the ABI and RREV to request views on the proposal to amend the LTIP performance conditions Consideration of responses to the shareholder consultation on proposed amendments to the LTIP performance conditions Proposed incentive framework for the 2012/13 Annual Incentive Scheme

**Remuneration principles and structure for 2012/13**

In November 2011, the Committee approved the following remuneration principles

**Overall Remuneration Principles**

Our approach to senior executive remuneration is designed to

- provide an appropriate balance between remuneration elements that attract, retain and motivate the right calibre of executive talent,
- be aligned to the business strategy and the achievement of planned business goals,

- encourage a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results, and
- support the creation of sustainable long-term shareholder value

The table below outlines the principles behind each key element of remuneration, the opportunity for each director in the year ahead and a brief summary of how it works. A more detailed explanation of how the incentive schemes work can be found on pages 17 and 18

	Principles	How it works	2012/13 potential remuneration
<b>Base salary</b>	<ul style="list-style-type: none"> <li>• Sufficient to attract and retain the highest calibre executive talent needed to support the long-term interests of the business, and</li> <li>• Periodically reviewed taking into account the organisation's annual review process, business performance, appropriate market data and an individual's contribution to the Group</li> </ul>	<p>Salaries are reviewed annually taking account of</p> <ul style="list-style-type: none"> <li>• changes to salaries across the Group,</li> <li>• trading circumstances,</li> <li>• personal performance against agreed objectives, and</li> <li>• benchmarking data against the FTSE 51-150</li> </ul>	<ul style="list-style-type: none"> <li>• Patrick Dempsey £426,300</li> <li>• Andy Harrison £717,500</li> <li>• Christopher Rogers £504,700</li> </ul>
<b>Annual Incentive Scheme</b>	<ul style="list-style-type: none"> <li>• To provide a direct link between annual performance and reward,</li> <li>• To incentivise the achievement of outstanding results across appropriate key stakeholder measures,</li> <li>• To use a consistent profit incentive range which will only be altered for a new incentive year in exceptional circumstances, and</li> <li>• To align with the long-term interests of shareholders and help participants build a significant stake in the business over time, by awarding a material part of the annual bonus in deferred equity</li> </ul>	<ul style="list-style-type: none"> <li>• Targets for both financial and non-financial measures set at the beginning of the bonus year,</li> <li>• Cash awards paid in May following the end of the financial year,</li> <li>• Deferred shares awarded and, under normal circumstances, released three years after the date of award, and</li> <li>• Clawback provisions apply to unvested deferred shares in the event of a material misstatement of results</li> </ul>	<ul style="list-style-type: none"> <li>• On-target performance 80% of salary (38.5% paid in cash, 41.5% paid in deferred shares)</li> <li>• At stretch performance 167% of salary (79% paid in cash, 88% paid in deferred shares)</li> </ul>
<b>Long Term Incentive Plan</b>	<ul style="list-style-type: none"> <li>• To closely align the interests of senior executives with sustainable long-term shareholder value creation,</li> <li>• To focus rewards on both the sustained delivery of absolute long-term earnings growth and the efficient use of capital over the long-term, and</li> <li>• To retain executives over the three-year performance period of the awards</li> </ul>	<ul style="list-style-type: none"> <li>• Awards made annually,</li> <li>• Awards vest after three years subject to performance conditions,</li> <li>• 75% of award based on EPS growth, subject to a ROCE hurdle*, and</li> <li>• ROCE also acts as a multiplier on a straight-line sliding scale to increase the EPS element by up to a further third*</li> </ul>	<ul style="list-style-type: none"> <li>• Patrick Dempsey 100% of salary,</li> <li>• Andy Harrison 125% of salary, and</li> <li>• Christopher Rogers 125% of salary</li> </ul>

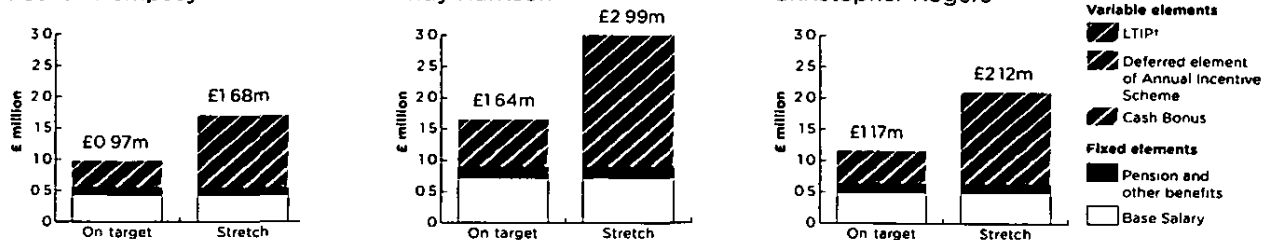
\*Subject to approval at the AGM

**Executive directors – potential value of package 2012/13**

Patrick Dempsey

Andy Harrison

Christopher Rogers



\*On-target performance assumes on-target bonus and threshold vesting under the LTIP. Stretch performance assumes maximum bonus and maximum LTIP vesting. In both cases, for simplicity no share price growth is assumed

### Annual Incentive Scheme

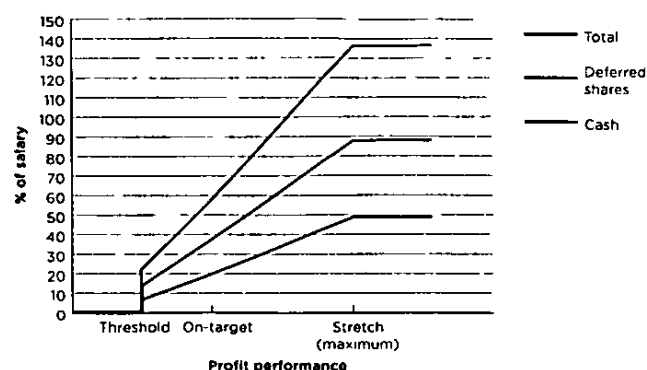
The Annual Incentive Scheme is the Company's annual bonus scheme, which applies to around 76 executives. The scheme has been designed to incentivise outstanding performance across a number of key stakeholder measures and it rewards executives with both a cash payment and an award of deferred shares. The scheme operates over a four-year period as outlined at the foot of the page.

There are two elements to the scheme. There is a **profit measure** and there are a number of **WINcard measures**, as shown below, which are subject to a health and safety hurdle. The scheme is designed to incentivise executives to deliver great results by providing an excellent environment for our people, in which they in turn can make everyday experiences feel special for our customers. The team engagement and guest heartbeat scores are up-weighted to reflect the importance of those elements to Whitbread's success. Further information on the WINcard targets can be found earlier in this report on pages 8 to 17 of the Annual Report. For executive directors, awards will be calculated as follows at the end of 2012/13:

Profit Measure	% of salary on target	% of salary at maximum
Underlying PBT	57.5%	137%
WINcard measures	% of salary for amber WINcard score	% of salary for green WINcard score
Your Say results (team engagement)		
Brand standards		
Guest heartbeat	15% or 4.5% for each measure	3% or 9% for each measure
Brand expansion		
Like for like sales growth		
Energy consumption		
	% of salary on target	% of salary at maximum
<b>Total*</b>	<b>80%</b>	<b>167%</b>

\*On-target WINcard performance is a combination of green and amber scores. Maximum performance has been defined as all green scores. Targets for green and amber scores are set at the beginning of the bonus year for each measure.

The following graph shows the percentage of salary received at different levels of profit performance as well as the split between cash and deferred equity in respect of the profit element.



For the WINcard element 80% of any awards are made in cash with the remaining 20% in deferred equity.

### Awards for 2011/12

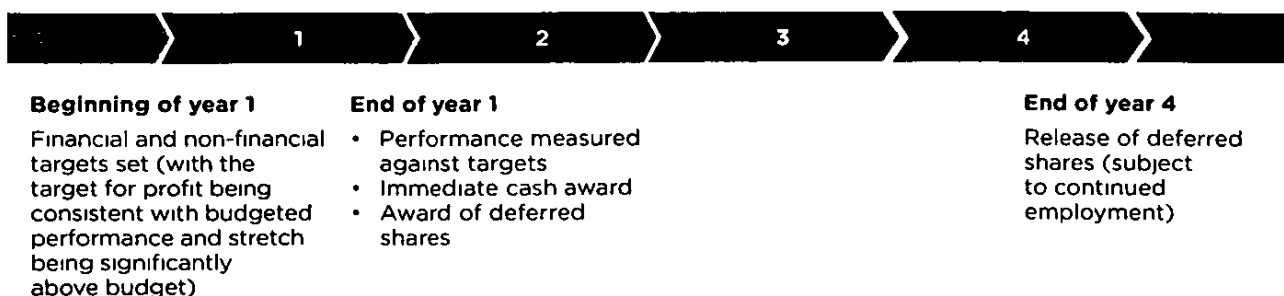
For 2012, Andy Harrison and Christopher Rogers received 76.1% of salary and Patrick Dempsey received 60.5% of salary under the Annual Incentive Scheme. These awards were split between cash and deferred shares as follows:

	% of salary in cash	% of salary in deferred shares	Total % of salary
<b>Patrick Dempsey</b>	30.9%	29.6%	60.5%
<b>Andy Harrison</b>	36.6%	39.5%	76.1%
<b>Christopher Rogers</b>	36.6%	39.5%	76.1%

For Andy Harrison and Christopher Rogers, incentive awards were based on Group performance. As the profit target was not quite met they each received 53.6% of salary split between cash and deferred equity based on the profit element. They also received 22.5% of salary based on the WINcard measures, with four green scores, one amber score and one red score.

Patrick Dempsey's awards were based on a combination of Group and Whitbread Hotels & Restaurants targets. He received 38% of salary based on the profit element and 22.5% based on the WINcard element.

### Timeline for the Annual Incentive Scheme



### Long Term Incentive Plan (LTIP)

While the Annual Incentive Scheme rewards sustainable performance in the prior year and a long-term commitment to the Company, the LTIP is all about the future. Approximately 40 executives are invited to participate in the LTIP.

Executives receive an annual grant of shares under the LTIP, based on a percentage of their salary, which will then vest three years later in the event that performance conditions are met over the three-year period. In 2011, the awards made were subject to an EPS performance condition for half of the award and a Total Shareholder Return (TSR) condition for the other half as described on page 22.

### Proposed changes to the LTIP

The Committee has agreed that it would be appropriate to make changes to the LTIP for future awards in order to align them more closely with the Company's strategic aims (as shown at the foot of this page). The proposed changes, which are subject to approval at the AGM are as follows:

- Independently operating EPS (underlying basic EPS) and TSR measures would be replaced by EPS and ROCE measures operating on a matrix basis,
- the ROCE measure would operate as both a hurdle and a multiplier to a base award generated by performance against the EPS measure,
- up to 75% of the award would be dependent on EPS growth over the three-year performance period subject to a satisfactory return on capital performance,
- ROCE would be used as a multiplier on a straight-line sliding scale basis to increase the EPS element by up to a further third,
- no element of the award would vest if a minimum threshold level of ROCE in 2014/15 (final year of the 2012 award) of 12% is not achieved, and
- the Committee will have the discretion to reduce the vesting of awards if it believes that performance has not been sufficiently value-enhancing during the period.

We believe it is the combination of the two measures that will incentivise executives to deliver on the stretching growth plans and create significant long-term shareholder value. No changes to the quantum of awards is proposed.

### Proposed awards for 2012

If the proposals are approved at the AGM, grants to senior executives, including the executive directors, will be made shortly after the meeting.

The matrix at the top of the page shows the potential vesting under the proposed 2012 LTIP awards based on the new approach.

Link between strategy and LTIP reward

### Strategy

Whitbread's strategy is to invest in growing its leading brands, Premier Inn and Costa. Last year we set milestones for the next five years which will take Premier Inn to at least 65,000 rooms and double the size of Costa to 3,500 stores. This will involve substantial capital commitment as we continue to grow in the UK and develop in our international markets.

		ROCE 2014/15							
		Threshold	Sliding scale					Maximum	
		11%	12%	13%	14%	15%	16%	16.6%	
EPS Growth above RPI per annum	Threshold	<4%	0%	0%	0%	0%	0%	0%	
	Sliding Scale	4%	0%	19%	19%	20%	22%	24%	25%
		6%	0%	37%	37%	40%	44%	47%	50%
		8%	0%	56%	56%	61%	66%	71%	75%
Maximum	10%	0%	75%	75%	82%	89%	96%	100%	

It is intended that Patrick Dempsey would receive an award to the value of 100% of his salary, with Andy Harrison and Christopher Rogers receiving awards to the value of 125% of their salaries.

### Awards vesting in 2012

The LTIP awards made to executives in 2009 were subject to independently operating performance conditions as set out in the table, which also outlines the outcome.

Performance conditions (each applicable to half of the total award)	Outcome	Proportion of relevant half of the award vesting
TSR growth against selected FTSE 51-150 constituents - median (25% vests) to upper quartile (100% vests)	Whitbread was ranked 14th out of 56 representing upper quartile performance	100%
2011/12 EPS - less than 92p, nil vesting, 92p, 25% vests, 107p or more, 100% vests, and between 92p and 107p, pro-rating applies between 25% and 100% vesting	The 2011/12 EPS was 134.35p representing growth of RPI + 9.6% per annum	100%

As a result, 100% of the shares awarded under the 2009 LTIP have vested. The awards vesting to the executive directors are as follows:

	Number of shares vested
<b>Patrick Dempsey</b>	54,458
<b>Christopher Rogers</b>	60,612

### LTIP reward

To reward executives for those elements of performance responsible for the achievement of the strategy and therefore clearly realign incentives towards delivering earnings growth and strong returns on capital. There are no proposals to change the ongoing award levels of the plan which are currently set at a maximum of 125% of salary for executive directors. Details of the changes can be found above.

#### Other information relating to executive directors Pension

In addition to the main elements of the remuneration package shown on page 16, executive directors are entitled to a Company pension contribution of 25% of salary, with these contributions increasing by a further 2.5% of salary after each of five and ten years' service. Alternatively, executives can elect to receive a monthly amount in cash (less an amount equal to the employer's national insurance contribution) in lieu of the pension contribution. Currently, Andy Harrison and Christopher Rogers have elected to receive a cash payment, while Patrick Dempsey receives a pension contribution and a cash supplement representing the balance over and above the £50,000 annual allowance set by HMRC for pension contributions.

#### 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.

#### Shareholding guidelines

Executive directors are required to build and hold a shareholding equal to 100% of salary within five years of appointment, whilst other senior executives are expected to reach a holding to the value of 50% of salary. The table below shows the holdings of executive directors as at 1 March 2012.

	Value of shareholding at 1 March 2012	% of salary
Patrick Dempsey	£421,025	100%
Andy Harrison	£3,223,958	449%
Christopher Rogers	£843,500	167%

#### Terms of executive directors' service contracts

The key terms of the contracts of the executive directors are as follows:

- Notice period – six months by the director and 12 months by the Company,
- Termination payment – under none of the contracts is any specific compensation payable on termination of employment. For Andy Harrison, the Company may terminate his contract by paying his salary, together with pension contributions (or cash in lieu of pension) and benefits for a 12-month period, with payments ceasing to the extent he obtains another remunerated post. For Patrick Dempsey, the Company may, if it chooses, terminate his employment by making a payment of 140% of basic salary,

- Sickness – full salary for a maximum of 12 months in any three-year period or for a maximum of nine consecutive months, and
- Non-compete – for six months after leaving

The dates of the executive directors' service contracts are as follows:

Patrick Dempsey	22 June 2009
Andy Harrison	3 March 2010
Christopher Rogers	19 May 2005

#### Executive directors – fees from external directorships

The executive directors are entitled to retain fees from any external directorships. Christopher Rogers is a non-executive director of HMV Group plc and received £45,000 during the year as a result of that directorship. Neither Andy Harrison nor Patrick Dempsey received any fees from external directorships.

#### The Chairman and the non-executive directors

Anthony Habgood has been Chairman since August 2005 and, during his time as Chairman, he has overseen a very successful period in Whitbread's history. The fee paid to him had remained unchanged since 2007. In July 2011 the Remuneration Committee met without Anthony to discuss his fee and determined that it would be appropriate to increase his fee to £325,000 with effect from 1 August 2011. The date of his letter of appointment is 14 April 2005.

Also in July 2011, the Board met (excluding the non-executive directors) to discuss the ongoing appropriateness of the fee structure for non-executive directors. This structure had also remained unchanged since 2007. It was agreed that, whilst the base fee continued to be appropriate, the fee for being the Chairman of the Audit or Remuneration Committees would increase from £10,000 to £15,000 and a new fee would be introduced of £5,000 for being a member of those two committees.

As a result, the non-executive director fees were changed with effect from 1 August 2011 and the current position is shown in the table at the foot of this page.

Neither the Chairman nor any of the non-executive directors has a service contract. The dates of their letters of appointment, all of which are available for inspection at the Company's registered office, are also shown in the table below.

Name	Base Fee	Additional Fees	Total Fees	Date of appointment letter
Richard Baker	£55,000	£10,000	£65,000	4 September 2009
Wendy Becker	£55,000	£10,000	£65,000	17 January 2008
Ian Cheshire	£55,000	£15,000	£70,000	21 January 2011
Susan Hooper	£55,000	£5,000	£60,000	3 August 2011
Simon Melliss	£55,000	£15,000	£70,000	23 March 2007
Susan Taylor Martin	£55,000	£5,000	£60,000	3 August 2011
Stephen Williams	£55,000	£15,000	£70,000	25 April 2008

**Employee Share Ownership Trust (ESOT)**

The Company funds an ESOT to enable it to acquire and hold shares for the Annual Incentive Scheme, the LTIP and the matching share award made to Andy Harrison on his appointment in 2010. In addition, the Company transferred 143,000 shares from treasury to the ESOT during 2011 to be utilised for the future satisfaction of vested LTIP awards.

As at 25 April 2012, the ESOT held 942,938 shares. The executive directors each have a technical interest in these shares as potential beneficiaries of the Trust, but no shares in the ESOT have been earmarked to any individual. All dividends on shares in the ESOT are waived by the trustee. During the period from 2 March 2012 to 25 April 2012, no director has exercised an option to call for the transfer of shares from the ESOT.

**Share price information**

The mid-market price of a Whitbread PLC ordinary share on 1 March 2012 was 1687p (3 March 2011 1708p). The highest and lowest price paid for ordinary shares during the year were 1737p and 1409p respectively.

**Changes since 1 March 2012**

There have been no changes in the directors' interests in ordinary shares since 1 March 2012.

**Dilution limits**

Whitbread's share plans comply with recommended guidelines on dilution limits and the Company has always operated within these limits. The current Association of British Insurers ('ABI') guidance on headroom limits provide that overall dilution under all plans should not exceed 10% over a ten-year period in relation to the Company's issued share capital, with a further limitation of 5% in any ten-year period on executive plans. Assuming none of the extant options lapse and will be exercised, and having included all exercised options as well as shares transferred from treasury in order to settle LTIP awards, the Company has utilised 3.24% of the 10% in ten years and 1.24% of the 5% in ten years in accordance with the ABI guidance on dilution limits.

Signed and approved on behalf of the Board


**Ian Cheshire**

Chairman, Remuneration Committee

25 April 2012

**Directors' remuneration for the year to 1 March 2012 (audited information)**

The table below shows a breakdown of the various elements of pay received by the directors for the period from 4 March 2011 to 1 March 2012.

	Basic salary	Cash in lieu of pension	Taxable benefits	Awards under the Annual Incentive Scheme*		Total excluding pension contributions	
				Cash	Deferred equity	2011/12	2010/11
	£	£	£	£	£	£	£
<b>Chairman</b>							
Anthony Habgood	314,583	-	-	-	-	314,583	300,000
<b>Executive directors</b>							
Patrick Dempsey	416,667	52,358	20,549	129,834	124,399	743,807	1,024,908
Andy Harrison	714,583	157,095	26,237	262,454	283,536	1,443,905	1,004,115 <sup>(1)</sup>
Alan Parker	-	-	-	-	-	-	1,924,482 <sup>(1)</sup>
Christopher Rogers	502,250	121,456	22,445	184,620	199,438	1,030,209	1,393,571
<b>Non-executive directors</b>							
Richard Baker	60,833 <sup>(2)(3)</sup>	-	-	-	-	60,833	55,000
Wendy Becker	60,833 <sup>(2)(3)</sup>	-	-	-	-	60,833	55,000
Ian Cheshire	67,917 <sup>(2)</sup>	-	-	-	-	67,917	5,417 <sup>(2)(3)</sup>
Philip Clarke	-	-	-	-	-	-	65,000 <sup>(2)</sup>
Susan Hooper	27,500 <sup>(4)</sup>	-	-	-	-	27,500	-
Simon Melliss	67,917 <sup>(2)</sup>	-	-	-	-	67,917	65,000 <sup>(2)</sup>
Susan Taylor Martin	9,167 <sup>(4)</sup>	-	-	-	-	9,167	-
Stephen Williams	67,917 <sup>(2)(3)</sup>	-	-	-	-	67,917	65,000 <sup>(2)</sup>

Total emoluments for the year were £3,894,588. The total for 2010/11 was £5,957,493. The totals shown in this table intentionally differ from those shown for the executive directors on page 14 as they do not include a value for vested share awards, but do include deferred shares awarded in 2012, but not due to vest until 2015.

\*The performance-related awards include a cash element and a deferred shares element as described on page 17. In addition, it is anticipated that Andy Harrison, Patrick Dempsey and Christopher Rogers will receive awards under the Long Term Incentive Plan (LTIP) to the value of £896,875, £426,300 and £630,875 respectively following the AGM. Subject to shareholder approval at the AGM the LTIP awards will be conditional on the achievement of a combined EPS/ROCE target described on page 16.

- 1 Fees/salary for part-year
- 2 Includes fees as Chairman of the Audit Committee
- 3 Includes fees as Chairman of the Remuneration Committee
- 4 Includes fees as Senior Independent Director
- 5 Includes fees as member of the Audit Committee
- 6 Includes fees as member of the Remuneration Committee

**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

Andy Harrison and Christopher Rogers elected to receive a cash supplement in lieu of pension contributions. Patrick Dempsey receives employer contributions, but following the introduction of tax reforms in April 2011 limiting the tax allowable contribution to £50,000, he now receives the balance of his entitlement as a cash supplement. The executive directors received the following cash supplements during the year

	Amount of cash supplement
<b>Patrick Dempsey</b>	£52,358
<b>Andy Harrison</b>	£157,095
<b>Christopher Rogers</b>	£121,456

Patrick Dempsey received employer contributions of £55,000 (2010/11 £110,000) into the defined contribution section of the Whitbread Group Pension Fund

**Annual Incentive Scheme (the 'Scheme') (audited information)**

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

Name	Year of award	Balance at 04/03/2011	Awarded	Lapsed	Vested	Balance at 01/03/2012	Release date	Market price at award	Date award vested	Market price at vesting	Monetary value of vested award
Patrick Dempsey	2009	26,353	-	-	26,353	-	-	734 5p	01/03/2012	1686 5p	£444,446
	2010	26,210	-	-	-	26,210	01/03/2013	1414 8p	-	-	-
	2011	19,698	-	-	-	19,698	01/03/2014	1787 4p	-	-	-
	2012	-	7,291	-	-	7,291	01/03/2015	1687 0p	-	-	-
		<b>72,261</b>	<b>7,291</b>	<b>-</b>	<b>26,353</b>	<b>53,199</b>					<b>£444,446</b>
Andy Harrison	2011	18,281	-	-	-	18,281	01/03/2014	1787 4p	-	-	-
	2012	-	16,618	-	-	16,618	01/03/2015	1687 0p	-	-	-
		<b>18,281</b>	<b>16,618</b>	<b>-</b>	<b>-</b>	<b>34,899</b>					<b>-</b>
Christopher Rogers	2009	36,354	-	-	36,354	-	01/03/2012	734 5p	01/03/2012	1686 5p	£613,114
	2010	29,579	-	-	-	29,579	01/03/2013	1414 8p	-	-	-
	2011	25,316	-	-	-	25,316	01/03/2014	1787 4p	-	-	-
	2012	-	11,689	-	-	11,689	01/03/2015	1687 0p	-	-	-
		<b>91,249</b>	<b>11,689</b>	<b>-</b>	<b>36,354</b>	<b>66,584</b>					<b>£613,114</b>

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, 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.

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

Potential share awards held by the 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

	04/03/2011	Awarded	Lapsed	Vested	01/03/2012	Conditional award granted	Performance period concludes	Market price at award	Date vested award exercised	Price at exercise	Monetary value of exercised award
<b>Patrick Dempsey</b>	14,894	-	2,622	12,272	-	01/03/2008	28/02/2011	1256 6p	12/05/2011	1605 96p	£197,083
	54,458	-	-	-	54,458	01/03/2009	29/02/2012	734 5p	-	-	-
	28,272	-	-	-	28,272	01/03/2010	28/02/2013	1414 8p	-	-	-
	22,378	-	-	-	22,378	01/03/2011	28/02/2014	1787 4p	-	-	-
	<b>120,002</b>	<b>-</b>	<b>2,622</b>	<b>12,272</b>	<b>105,108</b>						<b>£197,083</b>
<b>Andy Harrison*</b>	86,584	-	-	-	86,584	01/03/2010	28/02/2013	1414 8p	-	-	-
	48,953	-	-	-	48,953	01/03/2011	28/02/2014	1787 4p	-	-	-
	<b>135,537</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>135,537</b>						<b>-</b>
<b>Christopher Rogers</b>	33,423	-	5,883	27,540	-	01/03/2008	28/02/2011	1256 6p	12/05/2011	1605 96p	£442,281
	60,612	-	-	-	60,612	01/03/2009	29/02/2012	734 5p	-	-	-
	39,334	-	-	-	39,334	01/03/2010	28/02/2013	1414 8p	-	-	-
	34,267	-	-	-	34,267	01/03/2011	28/02/2014	1787 4p	-	-	-
	<b>167,636</b>	<b>-</b>	<b>5,883</b>	<b>27,540</b>	<b>134,213</b>						<b>£442,281</b>

The aggregate value of exercised awards was £639,364 (2010/11 £1,110,362)

\*As explained in the 2010/11 Annual Report under the terms of Andy Harrison's appointment, he received a matching award over 67,468 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 median performance.

**LTIP performance conditions - past awards**

	Performance metrics	TSR condition	EPS condition
<b>2009 award</b>	50% TSR and 50% EPS	TSR growth against selected 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
<b>2008, 2010 and 2011 awards</b>	50% TSR and 50% EPS	TSR growth against selected 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)

**LTIP performance conditions - future awards**

Details of the performance conditions proposed for the 2012 awards can be found on page 16

**Share options (audited information)**

Executive directors may participate in the Company's Savings-related Share Option Scheme (the '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 Scheme if a director ceases to be employed by the Company.

At 1 March 2012 the directors held the following share options under the 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
<b>Patrick Dempsey</b>	1,076	03/12/2010	1414 0p	29/02/2016	31/07/2016
<b>Total</b>	1,076	(1,076 at 03/03/2011)			
<b>Andy Harrison</b>	672	02/12/2011	1339 2p	28/02/2015	31/07/2015
<b>Total</b>	672	(nil at 03/03/2011)			
<b>Christopher Rogers</b>	1,076	03/12/2010	1414 0p	29/02/2016	31/07/2016
<b>Total</b>	1,076	(1,076 at 03/03/2011)			

---

# 2011/12 Consolidated Accounts

## **Consolidated accounts 2011/12**

---

**24** Directors' responsibility for  
the consolidated financial  
statements/audit report

---

**26** Consolidated income statement

---

**27** Consolidated statement  
of comprehensive income

---

**28** Consolidated statement  
of changes in equity

---

**29** Consolidated balance sheet

---

**30** Consolidated cash flow statement

---

**31** Notes to the consolidated  
financial statements

## 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 IFRSs 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

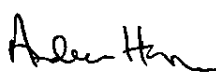
### Responsibility statement

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

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, 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

**Andy 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 1 March 2012 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 on page 24, 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 for 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 1 March 2012 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

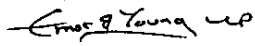
Governance Statement on pages 6 to 12 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and

- 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 1 March 2012 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

25 April 2012

# Year ended 1 March 2012

## Consolidated income statement

	Notes	Year to 1 March 2012 £m	Year to 3 March 2011 £m
Revenue	3, 4	<b>1,778.0</b>	1,599.6
Cost of sales		<b>(288.4)</b>	(237.1)
Gross profit		<b>1,489.6</b>	1,362.5
Distribution costs		<b>(969.2)</b>	(886.6)
Administrative expenses		<b>(174.7)</b>	(166.0)
Operating profit	5	<b>345.7</b>	309.9
Share of loss from joint ventures	16	<b>(0.7)</b>	(2.8)
Share of profit from associate	17	<b>0.9</b>	0.8
Operating profit of the Group, joint ventures and associate	4	<b>345.9</b>	307.9
Finance costs	8	<b>(43.4)</b>	(38.1)
Finance revenue	8	<b>3.3</b>	1.4
Profit before tax		<b>305.8</b>	271.2
<b>Analysed as</b>			
Underlying profit before tax		<b>320.1</b>	287.5
Amortisation of acquired intangible assets	6	<b>(2.6)</b>	(0.4)
IAS 19 Income Statement charge for pension finance cost	6	<b>(14.0)</b>	(11.5)
Profit before tax and exceptional items		<b>303.5</b>	275.6
Exceptional items	6	<b>2.3</b>	(4.4)
Profit before tax		<b>305.8</b>	271.2
Underlying tax expense		<b>(84.4)</b>	(83.7)
Exceptional tax and tax on non GAAP adjustment	6	<b>44.6</b>	34.6
Tax expense	9	<b>(39.8)</b>	(49.1)
Profit for the year		<b>266.0</b>	222.1
Attributable to			
Parent shareholders		<b>267.3</b>	223.3
Non-controlling interest		<b>(1.3)</b>	(1.2)
		<b>266.0</b>	222.1
<b>Earnings per share (note 11)</b>			
		Year to 1 March 2012 p	Year to 3 March 2011 p
Earnings per share			
Basic for profit for the year		<b>151.53</b>	127.16
Diluted for profit for the year		<b>151.19</b>	126.73
Earnings per share before exceptional items			
Basic for profit for the year		<b>127.38</b>	111.79
Diluted for profit for the year		<b>127.09</b>	111.41
Underlying earnings per share			
Basic for profit for the year		<b>134.35</b>	116.75
Diluted for profit for the year		<b>134.05</b>	116.35

# Year ended 1 March 2012

## Consolidated statement of comprehensive income

	Notes	Year to 1 March 2012 £m	Year to 3 March 2011 £m
Profit for the year		<b>266.0</b>	222.1
Items that will not be reclassified to profit or loss			
Actuarial losses on defined benefit pension schemes	32	<b>(192.1)</b>	(51.4)
Current tax	9	<b>22.2</b>	10.9
Deferred tax	9	<b>27.9</b>	3.5
Deferred tax change in rate of corporation tax	9	<b>(8.2)</b>	(3.4)
		<b>(150.2)</b>	(40.4)
Items that may be reclassified subsequently to profit or loss			
Net (loss)/gain on cash flow hedges		<b>(1.0)</b>	8.6
Deferred tax	9	<b>0.3</b>	(2.4)
Deferred tax change in rate of corporation tax	9	<b>(0.6)</b>	(0.3)
		<b>(1.3)</b>	5.9
Exchange differences on translation of foreign operations		<b>(0.6)</b>	(0.8)
Other comprehensive loss for the year, net of tax		<b>(152.1)</b>	(35.3)
Total comprehensive profit for the year, net of tax		<b>113.9</b>	186.8
Attributable to			
Parent shareholders		<b>115.2</b>	188.0
Non-controlling interest		<b>(1.3)</b>	(1.2)
		<b>113.9</b>	186.8

## Year ended 1 March 2012

### Consolidated statement of changes in equity

	Share capital premium (note 28) £m	Share redemption reserve (note 29) £m	Capital reserve (note 29) £m	Retained earnings (note 29) £m	Currency translation reserve (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 4 March 2010	146.4	49.1	12.3	3,006.8	5.1	(222.0)	(1,855.0)	(35.7)	<b>1,107.0</b>	1.0	<b>1,108.0</b>
Profit for the year	-	-	-	223.3	-	-	-	-	<b>223.3</b>	(1.2)	<b>222.1</b>
Other comprehensive income	-	-	-	(43.1)	(0.8)	-	-	8.6	<b>(35.3)</b>	-	<b>(35.3)</b>
Total comprehensive income	-	-	-	<b>180.2</b>	<b>(0.8)</b>	-	-	<b>8.6</b>	<b>188.0</b>	<b>(1.2)</b>	<b>186.8</b>
Ordinary shares issued	0.2	2.1	-	-	-	-	-	-	<b>2.3</b>	-	<b>2.3</b>
Cost of ESOT shares purchased	-	-	-	-	-	(5.1)	-	-	<b>(5.1)</b>	-	<b>(5.1)</b>
Loss on ESOT shares issued to participants	-	-	-	(6.2)	-	6.2	-	-	-	-	-
Accrued share-based payments	-	-	-	7.7	-	-	-	-	<b>7.7</b>	-	<b>7.7</b>
Deferred tax on share-based payments	-	-	-	1.2	-	-	-	-	<b>1.2</b>	-	<b>1.2</b>
Rate change on historic revaluation	-	-	-	0.6	-	-	-	-	<b>0.6</b>	-	<b>0.6</b>
Equity dividends	-	-	-	(69.4)	-	-	-	-	<b>(69.4)</b>	-	<b>(69.4)</b>
Scrip dividends	0.4	(0.4)	-	7.9	-	-	-	-	<b>7.9</b>	-	<b>7.9</b>
Additions	-	-	-	-	-	-	-	-	-	2.0	<b>2.0</b>
At 3 March 2011	<b>147.0</b>	<b>50.8</b>	<b>12.3</b>	<b>3,128.8</b>	<b>4.3</b>	<b>(220.9)</b>	<b>(1,855.0)</b>	<b>(27.1)</b>	<b>1,240.2</b>	<b>1.8</b>	<b>1,242.0</b>
Profit for the year	-	-	-	267.3	-	-	-	-	<b>267.3</b>	(1.3)	<b>266.0</b>
Other comprehensive income	-	-	-	(150.5)	(0.6)	-	-	(1.0)	<b>(152.1)</b>	-	<b>(152.1)</b>
Total comprehensive income	-	-	-	<b>116.8</b>	<b>(0.6)</b>	-	-	<b>(1.0)</b>	<b>115.2</b>	<b>(1.3)</b>	<b>113.9</b>
Ordinary shares issued	0.4	3.0	-	-	-	-	-	-	<b>3.4</b>	-	<b>3.4</b>
Cost of ESOT shares purchased	-	-	-	-	-	(5.2)	-	-	<b>(5.2)</b>	-	<b>(5.2)</b>
Loss on ESOT shares issued to participants	-	-	-	(5.8)	-	5.8	-	-	-	-	-
Accrued share-based payments	-	-	-	7.9	-	-	-	-	<b>7.9</b>	-	<b>7.9</b>
Tax on share-based payments	-	-	-	1.0	-	-	-	-	<b>1.0</b>	-	<b>1.0</b>
Rate change on historic revaluation	-	-	-	1.3	-	-	-	-	<b>1.3</b>	-	<b>1.3</b>
Equity dividends	-	-	-	(89.6)	-	-	-	-	<b>(89.6)</b>	-	<b>(89.6)</b>
Scrip dividends	0.1	(0.1)	-	2.6	-	-	-	-	<b>2.6</b>	-	<b>2.6</b>
Additions	-	-	-	-	-	-	-	-	-	5.9	<b>5.9</b>
At 1 March 2012	<b>147.5</b>	<b>53.7</b>	<b>12.3</b>	<b>3,163.0</b>	<b>3.7</b>	<b>(220.3)</b>	<b>(1,855.0)</b>	<b>(28.1)</b>	<b>1,276.8</b>	<b>6.4</b>	<b>1,283.2</b>

# At 1 March 2012

## Consolidated balance sheet

	Notes	1 March 2012 £m	3 March 2011 £m
<b>Assets</b>			
Non-current assets			
Intangible assets	13	206.6	204.3
Property, plant and equipment	14	2,580.5	2,415.9
Investment in joint ventures	16	18.7	17.4
Investment in associate	17	1.6	1.4
Trade and other receivables	20	3.6	2.9
Other financial assets	18	-	0.9
		<b>2,811.0</b>	<b>2,642.8</b>
Current assets			
Inventories	19	23.1	18.4
Trade and other receivables	20	85.0	84.3
Cash and cash equivalents	21	40.3	38.2
		<b>148.4</b>	<b>140.9</b>
Assets held for sale	14	0.6	4.0
<b>Total assets</b>		<b>2,960.0</b>	<b>2,787.7</b>
<b>Liabilities</b>			
Current liabilities			
Financial liabilities	22	14.2	4.2
Provisions	24	10.7	15.4
Derivative financial instruments	26	6.6	16.3
Income tax liabilities	9	15.4	15.4
Trade and other payables	27	321.3	280.2
		<b>368.2</b>	<b>331.5</b>
Non-current liabilities			
Financial liabilities	22	530.4	521.9
Provisions	24	37.1	29.8
Derivative financial instruments	26	20.1	16.6
Deferred income tax liabilities	9	105.9	142.7
Pension liability	32	598.7	488.0
Trade and other payables	27	16.4	15.2
		<b>1,308.6</b>	<b>1,214.2</b>
<b>Total liabilities</b>		<b>1,676.8</b>	<b>1,545.7</b>
<b>Net assets</b>		<b>1,283.2</b>	<b>1,242.0</b>
<b>Equity</b>			
Share capital	28	147.5	147.0
Share premium	29	53.7	50.8
Capital redemption reserve	29	12.3	12.3
Retained earnings	29	3,163.0	3,128.8
Currency translation reserve	29	3.7	4.3
Other reserves	29	(2,103.4)	(2,103.0)
Equity attributable to equity holders of the parent		<b>1,276.8</b>	<b>1,240.2</b>
Non-controlling interest		6.4	1.8
<b>Total equity</b>		<b>1,283.2</b>	<b>1,242.0</b>

Andy Harrison  
Chief Executive

*Andy Harrison*

Christopher Rogers  
Finance Director

*Christopher Rogers*

25 April 2012

# Year ended 1 March 2012

## Consolidated cash flow statement

	Notes	Year to 1 March 2012 £m	Year to 3 March 2011 £m
Profit for the year		<b>266.0</b>	222.1
Adjustments for			
Taxation charged on total operations	9	<b>39.8</b>	49.1
Net finance cost	8	<b>40.1</b>	36.7
Total loss from joint ventures	16	<b>0.7</b>	2.8
Total income from associate	17	<b>(0.9)</b>	(0.8)
(Profit)/loss on disposal of property, plant and equipment and property reversions	6	<b>(14.6)</b>	0.4
Loss on disposal of business	6	<b>-</b>	2.4
Depreciation and amortisation	13, 14	<b>109.7</b>	101.2
Impairments of financial assets, property, plant and equipment and intangibles	13, 14, 18	<b>11.3</b>	4.6
Share-based payments	31	<b>7.9</b>	7.7
Other non-cash items		<b>7.6</b>	(0.1)
Cash generated from operations before working capital changes		<b>467.6</b>	426.1
Increase in inventories		<b>(4.7)</b>	-
(Increase)/decrease in trade and other receivables		<b>(0.7)</b>	8.8
Increase/(decrease) in trade and other payables		<b>25.3</b>	(10.2)
Payments against provisions	24	<b>(9.2)</b>	(9.5)
Pension payments	32	<b>(95.4)</b>	(8.9)
Cash generated from operations		<b>382.9</b>	406.3
Interest paid		<b>(29.4)</b>	(25.7)
Taxes paid		<b>(31.3)</b>	(34.5)
Net cash flows from operating activities		<b>322.2</b>	346.1
Cash flows from investing activities			
Purchase of property, plant and equipment		<b>(305.7)</b>	(199.6)
Purchase of intangible assets	13	<b>(2.2)</b>	(2.6)
Proceeds from disposal of property, plant and equipment		<b>58.7</b>	3.1
Business combinations, net of cash acquired	10	<b>-</b>	(59.5)
Capital contributions and loans to joint ventures		<b>(1.6)</b>	(3.4)
Dividends from associate		<b>0.7</b>	0.6
Interest received		<b>2.6</b>	1.4
Net cash flows from investing activities		<b>(247.5)</b>	(260.0)
Cash flows from financing activities			
Proceeds from issue of share capital		<b>3.4</b>	2.3
Costs of purchasing ESOT shares		<b>(5.2)</b>	(5.1)
Capital contributions from non-controlling interests		<b>5.5</b>	-
Increase/(decrease) in short-term borrowings		<b>13.5</b>	(25.5)
Proceeds from long-term borrowings		<b>156.4</b>	101.8
Repayments of long-term borrowings		<b>(150.6)</b>	(104.1)
Issue costs of long-term borrowings		<b>(5.4)</b>	(1.1)
Dividends paid	12	<b>(87.0)</b>	(61.5)
Net cash flows used in financing activities		<b>(69.4)</b>	(93.2)
Net increase/(decrease) in cash and cash equivalents		<b>5.3</b>	(7.1)
Opening cash and cash equivalents		<b>34.2</b>	41.5
Foreign exchange differences		<b>0.1</b>	(0.2)
Closing cash and cash equivalents	23	<b>39.6</b>	34.2
Reconciliation to cash and cash equivalents in the balance sheet			
Cash and cash equivalents shown above		<b>39.6</b>	34.2
Add back overdrafts		<b>0.7</b>	4.0
Cash and cash equivalents shown within current assets on the balance sheet		<b>40.3</b>	38.2

# At 1 March 2012

## Notes to the consolidated financial statements

### 1 Authorisation of financial statements

The consolidated financial statements of Whitbread PLC for the year ended 1 March 2012 were authorised for issue by the Board of Directors on 25 April 2012. 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 3 March 2011, except for the definition of underlying profit which is noted in the policy on non GAAP performance measures, the presentation of the Consolidated Statement of Comprehensive Income noted below and the adoption of the following new Standards and Interpretations that are applicable for the year ended 1 March 2012.

In the current year, the directors have elected to voluntarily change the presentation of the Consolidated Statement of Comprehensive Income to present those items of other comprehensive income which could be reclassified to profit or loss at a future point separately from those items which will never be reclassified. The directors consider that the change provides additional information and allows users to more easily identify the potential impact of items within the Consolidated Statement of Comprehensive Income. Comparatives have been restated accordingly. This change is presentational only and has no impact on the Group's reported income in the current or prior period.

#### *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. There is no impact on the Group's financial position or performance.

#### *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 has had no effect on the financial statements of 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.

#### 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.

# At 1 March 2012

## Notes to the consolidated financial statements

### 2 Accounting policies (continued)

#### Intangible assets (continued)

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 of 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 15 years
- 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 and long leasehold 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 whenever 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 straight-line basis over its remaining useful life.

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.

## **2 Accounting policies (continued)**

### **Impairment (continued)**

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 the 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 the cost 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*

In order for this measure to reflect the underlying performance of the Group the measure has been refined to include the amortisation on acquired intangibles.

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 the sale of a business, impairment and exceptional interest and tax.

# At 1 March 2012

## Notes to the consolidated financial statements

### 2 Accounting policies (continued)

*IAS 19 Income Statement finance charge/credit for defined benefit pension schemes*  
Underlying profit excludes the finance cost/revenue element of IAS 19

*Amortisation charge on acquired intangible assets*

Underlying profit excludes the amortisation charge on acquired intangible assets

#### *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. Under IFRIC 13, a portion of revenue equal to the fair value of the reward earned under the 'Great Night Giveaway' scheme is deferred until the reward is recognised.

#### *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.

## 2 Accounting policies (continued)

### Retirement benefits (continued)

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.

### 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 that are 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 directly 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.

# At 1 March 2012

## Notes to the consolidated financial statements

### 2 Accounting policies (continued)

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

*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 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

## 2 Accounting policies (continued)

### Derivative financial instruments (continued)

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 and sources of estimation uncertainty are outlined below.

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

Judgement involving estimates 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 value 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 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*

The amendment provides guidance on the requirement for entities to group items presented in the Statement of Other Comprehensive Income (OCI) on the basis of whether they can be reclassified to profit and loss subsequently. This amendment results in a change in the format of the Statement of Other Comprehensive Income only and becomes effective for annual periods beginning on or after 1 July 2012.

# At 1 March 2012

## Notes to the consolidated financial statements

### 2 Accounting policies (continued)

#### *IAS 19 Employee Benefits (Amendment)*

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The impact on the Group is on disclosure in the financial statements but there will also be an impact on the income statement due to the change in interest rate used to calculate the return on assets. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IAS 27 Separate Financial Statements (as revised in 2011)*

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements and so there will be no impact. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Group already consolidates using the equity method this will have no impact on the financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities*

The amendment requires that, if financial assets and liabilities have the right of set off, (and we would account as such) then disclosure is required to explain what asset has been derecognised and the reasons for doing so. In addition, the amendment requires disclosures about the continuation of set off to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The Group, under IAS 39, offsets assets and liabilities and therefore will be required to provide disclosure of this in the financial statements going forward but there will be no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *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 and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 10 Consolidated Financial Statements*

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The Group has reviewed the current structure and does not believe that this will have any impact on the financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Group as our investments are Joint Ventures not Joint Arrangements and as such we account for under the equity method already. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 12 Disclosure of Involvement with Other Entities*

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests, where they are material, in subsidiaries, joint arrangements, associates and structured entities. The impact on the Group is on disclosure in the financial statements only where summarised information may need to be provided. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

#### *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group will need to disclose how the fair value has been reached in the financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

### 3 Revenue

An analysis of the Group's revenue is as follows

	2011/12 £m	2010/11 £m
Rendering of services	755.1	698.6
Royalties	21.0	16.2
Sale of goods	1,001.9	884.8
Revenue	<b>1,778.0</b>	<b>1,599.6</b>

### 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 outlets

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 underlying 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, centrally held provisions 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 1 March 2012 and 3 March 2011.

	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
<b>Year ended 1 March 2012</b>				
Revenue				
Revenue from external customers	1,239.3	538.7	-	1,778.0
Inter-segment revenue	-	3.2	(3.2)	-
Total revenue	<b>1,239.3</b>	<b>541.9</b>	<b>(3.2)</b>	<b>1,778.0</b>
Underlying operating profit before exceptional items	295.6	69.7	(19.9)	345.4
Amortisation of acquired intangibles	-	(2.6)	-	(2.6)
Operating profit before exceptional items	295.6	67.1	(19.9)	342.8
Exceptional items				
Net gain/(loss) on disposal of property, plant and equipment and property reversions	25.1	(0.5)	(10.0)	14.6
Net loss on disposal of property, plant and equipment on joint ventures	-	(0.2)	-	(0.2)
Impairment of investment	-	-	(0.9)	(0.9)
Impairment	(12.8)	(0.9)	-	(13.7)
Impairment reversal	2.8	0.5	-	3.3
Operating profit of the Group, joint ventures and associates	310.7	66.0	(30.8)	345.9
Net finance costs				(40.1)
Profit before tax				305.8
Tax expense				(39.8)
Profit for the year				<b>266.0</b>
Assets and liabilities				
Segment assets	2,603.0	279.2	-	2,882.2
Unallocated assets	-	-	77.8	77.8
Total assets	<b>2,603.0</b>	<b>279.2</b>	<b>77.8</b>	<b>2,960.0</b>
Segment liabilities	(213.4)	(63.9)	-	(277.3)
Unallocated liabilities	-	-	(1,399.5)	(1,399.5)
Total liabilities	<b>(213.4)</b>	<b>(63.9)</b>	<b>(1,399.5)</b>	<b>(1,676.8)</b>
Net assets	<b>2,389.6</b>	<b>215.3</b>	<b>(1,321.7)</b>	<b>1,283.2</b>

# At 1 March 2012

## Notes to the consolidated financial statements

### 4 Segment information (continued)

Year ended 1 March 2012	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Other segment information				
Income from associate	0.9	-	-	0.9
Loss from joint ventures	-	(0.7)	-	(0.7)
Capital expenditure				
Property, plant and equipment - cash basis	243.5	62.2	-	305.7
Property, plant and equipment - accruals basis	254.0	63.2	-	317.2
Intangible assets	0.7	1.5	-	2.2
Depreciation	(78.0)	(27.0)	-	(105.0)
Amortisation	(1.5)	(3.2)	-	(4.7)
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
Underlying operating profit before exceptional items	283.4	50.5	(22.1)	311.8
Amortisation of acquired intangibles	-	(0.4)	-	(0.4)
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, joint ventures and associates	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)

Revenues from external customers are split geographically as follows

	2011/12 £m	2010/11 £m
United Kingdom*	<b>1,729.4</b>	1,582.1
Non United Kingdom	<b>48.6</b>	17.5
	<b>1,778.0</b>	1,599.6

\*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

	2012 £m	2011 £m
United Kingdom	<b>2,769.2</b>	2,610.9
Non United Kingdom	<b>41.8</b>	31.0
	<b>2,811.0</b>	2,641.9

\*\*Non-current assets exclude financial assets

#### 5 Group operating profit

This is stated after charging/(crediting)

	2011/12 £m	2010/11 £m
Property operating lease payments		
Minimum lease payments recognised as an operating lease expense		
Minimum lease payments attributable to the current period	<b>108.3</b>	95.4
IAS 17 - impact of future minimum rental uplifts	<b>2.8</b>	4.8
Contingent rents	<b>8.1</b>	6.2
Total property rent	<b>119.2</b>	106.4
Plant and machinery operating lease payments	<b>8.6</b>	7.8
Operating lease payments	<b>127.8</b>	114.2
Operating lease payments - sublease receipts	<b>(1.4)</b>	(1.2)
Amortisation of intangible assets (note 13)	<b>4.7</b>	2.9
Depreciation of property, plant and equipment (note 14)	<b>105.0</b>	98.3
Cost of inventories recognised as an expense	<b>233.4</b>	207.5
Employee benefits expense (note 7)	<b>475.9</b>	437.9
Net foreign exchange differences	<b>0.2</b>	0.1
Principal auditor's fees		
Audit of the Group financial statements	<b>0.3</b>	0.3
Other fees to auditors		
Auditing the accounts of subsidiaries	<b>0.2</b>	0.2
All other services	<b>0.1</b>	0.2
	<b>0.6</b>	0.7

#### 6 Exceptional items and other non GAAP adjustments

	2011/12 £m	2010/11 £m
Exceptional items before tax and interest		
Revenue		
Refund of VAT on gaming machine income <sup>1</sup>	-	4.6
Distribution costs		
Net gain/(loss) on disposal of property, plant and equipment, and property reversions <sup>2</sup>	<b>14.6</b>	(0.4)
Impairment of property, plant and equipment (note 15)	<b>(13.5)</b>	(13.0)
Impairment reversal (note 15)	<b>3.3</b>	9.2
	<b>4.4</b>	(4.2)

# At 1 March 2012

## Notes to the consolidated financial statements

### 6 Exceptional items and other non GAAP adjustments (continued)

	2011/12 £m	2010/11 £m
Administrative expenses		
Impairment of financial assets (note 18)	(0.9)	-
Impairment of other intangibles (note 15)	(0.2)	(0.8)
Sale of businesses <sup>3</sup>	-	(2.4)
	<b>(1.1)</b>	<b>(3.2)</b>
Net loss on disposal of fixed assets in joint ventures	(0.2)	-
Share of impairment of fixed assets in joint ventures <sup>4</sup>	-	(0.7)
	<b>3.1</b>	<b>(3.5)</b>
Exceptional interest		
Interest on VAT refunded <sup>1</sup>	-	0.7
Interest on exceptional tax <sup>5</sup>	-	(0.7)
Movement in discount on provisions <sup>6</sup>	(0.8)	(0.9)
	<b>(0.8)</b>	<b>(0.9)</b>
Exceptional items before tax	<b>2.3</b>	<b>(4.4)</b>
Other non GAAP adjustments made to underlying profit before tax to arrive at reported profit before tax		
Amortisation of acquired intangibles	(2.6)	(0.4)
IAS 19 Income Statement charge for pension finance cost	(14.0)	(11.5)
	<b>(16.6)</b>	<b>(11.9)</b>
Items included in reported profit before tax, but excluded in arriving at underlying profit before tax	<b>(14.3)</b>	<b>(16.3)</b>
Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax		
Tax on continuing exceptional items	(2.5)	(1.3)
Exceptional tax items – capital allowances claims <sup>7</sup>	16.6	7.6
Exceptional tax items – rolled over gains <sup>8</sup>	9.2	16.7
Deferred tax relating to UK tax rate change	17.0	8.4
Tax on non GAAP adjustment	4.3	3.2
	<b>44.6</b>	<b>34.6</b>

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.

2 During the year a net gain of £25.6m was recognised on disposals of property, plant and equipment, the majority of which relates to the sale and leaseback agreement for seven properties. In addition a provision has been raised in relation to the properties that reverted to Whitbread following difficulties with Southern Cross. Furthermore a worsening of the property market has led to a further requirement of provision on the onerous contract portfolio.

3 Following a strategic review the Bulgarian and Czech businesses acquired as part of the Coffeeheaven acquisition were disposed of as going concerns.

4 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 incurred a joint venture exceptional loss of £0.7m.

5 The interest arising on late payment of an item claimed in a previous year, which is disputed, is included in exceptional interest charges.

6 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.

7 Following the abolition of Industrial Buildings Allowances for hotel buildings the Group reviewed and resubmitted prior year capital allowance claims. These claims have now been agreed with HMRC.

8 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

	2011/12 £m	2010/11 £m
Wages and salaries	441.8	407.1
Social security costs	29.7	26.8
Pension costs	4.4	4.0
	<b>475.9</b>	<b>437.9</b>

Included in wages and salaries is a share-based payments expense of £8.0m (2010/11 £7.8m), 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

	2011/12 No	2010/11 No
Hotels & Restaurants	22,235	21,121
Costa	8,196	6,747
Unallocated	53	55
Total operations	<b>30,484</b>	<b>27,923</b>

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

Details of directors' emoluments are disclosed in the Remuneration report on pages 13 to 22

## 8 Finance (costs)/revenue

	2011/12 £m	2010/11 £m
Finance costs		
Bank loans and overdrafts	(31.5)	(28.2)
Other loans	(0.2)	(0.3)
Interest capitalised	3.1	2.8
	<b>(28.6)</b>	<b>(25.7)</b>
Net pension finance cost (note 32)	<b>(14.0)</b>	<b>(11.5)</b>
Finance costs before exceptional items	<b>(42.6)</b>	<b>(37.2)</b>
Movement in discount on provisions (note 6)	(0.8)	(0.9)
Total finance costs	<b>(43.4)</b>	<b>(38.1)</b>
Finance revenue		
Bank interest receivable	0.4	0.2
Other interest receivable	2.2	1.2
	<b>2.6</b>	<b>1.4</b>
Impact of ineffective portion of cash flow and fair value hedges	<b>0.7</b>	<b>-</b>
Total finance revenue	<b>3.3</b>	<b>1.4</b>

# At 1 March 2012

## Notes to the consolidated financial statements

### 9 Taxation

Consolidated income statement	2011/12 £m	2010/11 £m
Current tax		
Current tax expense	79.1	81.9
Adjustments in respect of current tax of previous periods	(22.9)	(10.7)
	56.2	71.2
Deferred tax		
Origination and reversal of temporary differences	6.6	1.8
Adjustments in respect of previous periods	(6.0)	(15.5)
Change in UK tax rate to 25% (2010/11 27%)	(17.0)	(8.4)
	(16.4)	(22.1)
Tax reported in the consolidated income statement	39.8	49.1
Consolidated statement of comprehensive income	2011/12 £m	2010/11 £m
Current tax		
Pensions	(22.2)	(10.9)
Deferred tax		
Cash flow hedge	(0.3)	2.4
Pensions	(27.9)	(3.5)
Change in UK tax rate to 25% (2010/11 27%) - pension	8.2	3.4
Change in UK tax rate to 25% (2010/11 27%) - cash flow hedges	0.6	0.3
Tax reported in other comprehensive income	(41.6)	(8.3)

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 1 March 2012 and 3 March 2011 respectively is as follows

	2011/12 £m	2010/11 £m
Profit before tax as reported in the consolidated income statement	305.8	271.2
Tax at current UK tax rate of 26.17% (2011 28.00%)	80.0	76.0
Effect of different tax rates in overseas companies	3.0	1.9
Effect of joint ventures and associate	(0.4)	0.6
Expenditure not allowable	3.1	5.2
Adjustments to tax expense in respect of previous years	(22.9)	(10.7)
Adjustments to deferred tax expense in respect of previous years	3.2	(2.9)
Exceptional adjustments to deferred tax expense in respect of previous years	(9.2)	(12.6)
Impact of change of tax rate on deferred tax balance	(17.0)	(8.4)
Tax expense reported in the consolidated income statement	39.8	49.1

The corporation tax balance is a liability of £15.4m (2011 liability of £15.4m)

#### Deferred tax

Deferred tax relates to the following

	Consolidated balance sheet		Consolidated income statement	
	2012 £m	2011 £m	2011/12 £m	2010/11 £m
Deferred tax liabilities				
Accelerated capital allowances	62.8	104.9	(41.8)	(0.2)
Rolled over gains and property revaluations	163.3	138.2	26.4	(21.5)
Gross deferred tax liabilities	226.1	243.1		
Deferred tax assets				
Pensions	(114.4)	(93.7)	(1.1)	(0.7)
Other	(5.8)	(6.7)	0.1	0.3
Gross deferred tax assets	(120.2)	(100.4)		
Deferred tax expense			(16.4)	(22.1)
Net deferred tax liability	105.9	142.7		

## 9 Taxation (continued)

Total deferred tax liabilities released as a result of disposals during the year was £0.6m (2011: £nil)

The Group has incurred overseas tax losses which, subject to any local restrictions, can be carried forward and offset against future taxable profits in the companies in which they arose. The Group carries out an annual assessment of the recoverability of these losses and does not think it appropriate at this stage to recognise any deferred tax asset. If the Group were to recognise these deferred tax assets in their entirety, profits would increase by £5.1m (2011: £4.9m).

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 (2011: £0.8m)

### Factors affecting the tax charge for future years

The Finance Act 2011 reduced the main rate of UK corporation tax to 26% from 1 April 2011 and to 25% from 1 April 2012. The effect of the new rate is to reduce the deferred tax provision by a net £9.3m, comprising a credit of £17.0m to the Income Statement, a charge of £8.8m to the Consolidated Statement of Comprehensive Income, and a reserves movement of £1.1m.

In his budget of 21 March 2012, the Chancellor of the Exchequer announced an additional 1% reduction in the rate of UK corporation tax, with effect from April 2012. Further changes to corporation tax are also proposed, to reduce the main rate by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and consequently are not included in these financial statements. The effect of these proposed reductions would be to reduce the net deferred tax liability by £11.4m. Further tax changes are a reduction from 1 April 2012 in the rate of capital allowances applicable to plant and machinery and to integral features from 20% to 18% and from 10% to 8% respectively.

## 10 Business combinations

There have been no acquisitions in the year.

### Prior year business combinations

In 2010/11, Costa Limited acquired the entire issued share capital of Coffee Nation for a total consideration of £59.5m paid in cash. Goodwill of £41.0m was recognised. There have been no adjustments to the provisional fair values allocated and disclosed in the financial statements of 2010/11. The fair and book value of assets acquired in 2010/11 were:

	Book value £m	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
	9.1	59.5

# At 1 March 2012

## Notes to the consolidated financial statements

### 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)

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 (2011 nil)

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

	2011/12 million	2010/11 million
Basic weighted average number of ordinary shares	<b>176.4</b>	175.6
Effect of dilution - share options	<b>0.4</b>	0.6
Diluted weighted average number of ordinary shares	<b>176.8</b>	176.2

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 192.0m less 14.1m treasury shares held by Whitbread PLC and 0.9m held by the ESOT (2011 191.4m less 14.2m treasury shares held by Whitbread PLC and 0.9m held by the ESOT)

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

	2011/12 £m	2010/11 £m
Profit for the year attributable to parent shareholders	<b>267.3</b>	223.3
Exceptional items - gross	<b>(2.3)</b>	4.4
Exceptional items - taxation	<b>(40.3)</b>	(31.4)
Profit for the year before exceptional items attributable to parent shareholders	<b>224.7</b>	196.3
Non GAAP adjustments - gross	<b>16.6</b>	11.9
Non GAAP adjustments - taxation	<b>(4.3)</b>	(3.2)
Underlying profit for the year attributable to parent shareholders	<b>237.0</b>	205.0
	2011/12 pence	2010/11 pence
Basic for profit for the year	<b>151.53</b>	127.16
Exceptional items - gross	<b>(1.30)</b>	2.51
Exceptional items - taxation	<b>(22.85)</b>	(17.88)
Basic for profit before exceptional items for the year	<b>127.38</b>	111.79
Non GAAP adjustments - gross	<b>9.41</b>	6.78
Non GAAP adjustments - taxation	<b>(2.44)</b>	(1.82)
Basic for underlying profit for the year <sup>1</sup>	<b>134.35</b>	116.75
Diluted for profit for the year	<b>151.19</b>	126.73
Diluted for profit before exceptional items for the year	<b>127.09</b>	111.41
Diluted for underlying profit for the year <sup>1</sup>	<b>134.05</b>	116.35

<sup>1</sup>The definition for underlying has been amended and therefore the prior year numbers have been recalculated to reflect this

## 12 Dividends paid and proposed

	2011/12		2010/11	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year	<b>33.25</b>	<b>58.6</b>	28.35	49.7
Settled via scrip issue (note 28)		<b>(1.5)</b>		<b>(1.7)</b>
Paid in the year		<b>57.1</b>		<b>48.0</b>
Interim dividend for the current year	<b>17.50</b>	<b>31.0</b>	11.25	19.7
Settled via scrip issue (note 28)		<b>(1.1)</b>		<b>(6.2)</b>
Paid in the year		<b>29.9</b>		<b>13.5</b>
Total equity dividends paid in the year		<b>87.0</b>		<b>61.5</b>
Dividends on other shares				
B share dividend	<b>1.18</b>	-	1.60	-
C share dividend	<b>1.28</b>	-	1.01	-
		<b>-</b>		<b>-</b>
Total dividends paid		<b>87.0</b>		<b>61.5</b>
Proposed for approval at Annual General Meeting				
Equity dividends on ordinary shares				
Final dividend for the current year	<b>33.75</b>	<b>59.7</b>	33.25	<b>58.6</b>

## 13 Intangible assets

	Goodwill £m	Brand £m	Customer relationships £m	IT software and technology £m	Other £m	Total £m
Cost						
At 4 March 2010	135.8	5.1	-	41.1	2.9	184.9
Additions	-	-	-	2.6	-	2.6
Businesses acquired	<b>41.0</b>	<b>0.5</b>	<b>5.9</b>	<b>8.0</b>	-	<b>55.4</b>
At 3 March 2011	<b>176.8</b>	<b>5.6</b>	<b>5.9</b>	<b>51.7</b>	<b>2.9</b>	<b>242.9</b>
Additions	-	-	-	0.9	1.3	2.2
Transferred	-	-	-	12.3	-	12.3
At 1 March 2012	<b>176.8</b>	<b>5.6</b>	<b>5.9</b>	<b>64.9</b>	<b>4.2</b>	<b>257.4</b>
Amortisation and impairment						
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)
Amortisation during the year	-	(0.6)	(0.4)	(3.6)	(0.1)	(4.7)
Transfers	-	-	-	(7.3)	-	(7.3)
Impairment	-	(0.2)	-	-	-	(0.2)
At 1 March 2012	<b>-</b>	<b>(1.2)</b>	<b>(0.4)</b>	<b>(47.2)</b>	<b>(2.0)</b>	<b>(50.8)</b>
Net book value at 1 March 2012	<b>176.8</b>	<b>4.4</b>	<b>5.5</b>	<b>17.7</b>	<b>2.2</b>	<b>206.6</b>
Net book value at 3 March 2011	<b>176.8</b>	<b>5.2</b>	<b>5.9</b>	<b>15.4</b>	<b>1.0</b>	<b>204.3</b>

Included in the amortisation for the year is the amortisation relating to acquired intangibles amounting to £2.6m (2010/11 £0.4m)

# At 1 March 2012

## Notes to the consolidated financial statements

### 13 Intangible assets (continued)

The carrying amount of goodwill allocated by segment is presented below

	2012 £m	2011 £m
Hotels & Restaurants	<b>112.6</b>	112.6
Costa	<b>64.2</b>	64.2
Total	<b>176.8</b>	176.8

The carrying amount of goodwill at 1 March 2012 is comprised of £112.6m for Hotels & Restaurants and £64.2m for Costa. The Hotels & Restaurants CGU and the Costa CGU 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 acquisitions of Coffeeheaven and of Coffee Nation in previous financial years. It is being amortised over a period of two to 15 years.

The customer relationships asset arose with the acquisition of Coffee Nation in the previous financial year. It is being amortised over a period of 15 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 £1.8m (2011: £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 £nil (2011: £0.2m).

### 14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 4 March 2010	1,980.3	788.0	2,768.3
Additions	99.5	108.1	207.6
Businesses acquired	-	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	<b>2,074.2</b>	<b>842.5</b>	<b>2,916.7</b>
Additions	135.6	181.6	317.2
Interest capitalised	3.1	-	3.1
Reclassified	(5.0)	5.0	-
Assets written off	(2.2)	(45.9)	(48.1)
Foreign currency adjustment	(1.6)	(0.1)	(1.7)
Transfers	-	(12.3)	(12.3)
Disposals	(27.3)	(8.6)	(35.9)
At 1 March 2012	<b>2,176.8</b>	<b>962.2</b>	<b>3,139.0</b>

#### 14 Property, plant and equipment (continued)

	Land and buildings £m	Plant and equipment £m	Total £m
Depreciation and impairment			
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	<b>(177.5)</b>	<b>(323.3)</b>	<b>(500.8)</b>
Depreciation charge for the year	(11.5)	(93.5)	(105.0)
Reclassified	2.3	(2.3)	-
Impairment (note 15)	(7.2)	(3.0)	(10.2)
Depreciation on assets written off	2.2	41.9	44.1
Foreign currency adjustment	-	0.1	0.1
Transfers	-	7.3	7.3
Disposals	2.5	3.5	6.0
At 1 March 2012	<b>(189.2)</b>	<b>(369.3)</b>	<b>(558.5)</b>
<b>Net book value at 1 March 2012</b>	<b>1,987.6</b>	<b>592.9</b>	<b>2,580.5</b>
Net book value at 3 March 2011	1,896.7	519.2	2,415.9
Capital expenditure commitments		2012 £m	2011 £m
Capital expenditure commitments for property, plant and equipment for which no provision has been made		<b>62.0</b>	63.9

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 as part of its pipeline. 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 £179.3m over the next five years (2011: £169.1m).

#### Capitalised interest

Interest capitalised during the year amounted to £3.1m, using an average rate of 5.4% (2010/11: £2.8m, using an average rate of 5.0%).

#### Assets held for sale

During the year, no property assets (2010/11: £3.3m) were transferred to assets held for sale. Property assets sold during the year had a net book value of £3.4m (2010/11: £1.2m), and two trading sites with a combined net book value of £0.6m (2010/11: £4.0m) continued to be classified as assets held for sale at the year end.

# At 1 March 2012

## Notes to the consolidated financial statements

### 15 Impairment

During the year impairment losses of £13.5m (2010/11 £13.0m) and impairment reversals of £3.3m (2010/11 £9.2m) were recognised

	2011/12	2010/11
	Property, plant and equipment £m	Property, plant and equipment £m
Impairment losses		
Hotels & Restaurants	12.8	12.1
Costa	0.7	0.9
Impairment reversals		
Hotels & Restaurants	(2.8)	(7.9)
Costa	(0.5)	(1.3)
Total	<b>10.2</b>	<b>3.8</b>

#### 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 9.3% in the UK with geographic specific percentages overseas (2010/11 9.7%). 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 growth rate based upon the relevant country's inflation target. For the UK this is 2.0% (2010/11 2.0%).

The events and circumstances that led to the impairment charge of £13.5m are set out below

#### Hotels & Restaurants

The impairment of £12.8m at 16 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
- Economic climate affecting some key regions
- 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

Six UK Costa sites, two sites in Shanghai and five in the Coffeeheaven business all with an established trend of poor performance against the required capital investment have been impaired by £0.7m 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 £3.3m have been recognised, £2.8m in Hotels & Restaurants and £0.5m in Costa.

#### 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
Incremental impairment charge			
Impairment if business plan growth rates were reduced by 1ppt	5.0	-	5.0
Impairment if discount rate was increased by 1ppt	4.6	-	4.6

## 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 (2010/11 2.0%). The pre-tax discount rate applied to cash flow projections is 9.3% (2010/11 9.7%).

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

### Brand

The brand intangible asset comprises Coffeeheaven and Coffee Nation brand names. Costa have reviewed the brand intangible asset in relation to Coffee Nation and impaired it down by £0.2m to nil value reflecting the quicker than expected rebranding of Coffee Nation machines to Costa Express (2010/11 £nil)

## 16 Investment in joint ventures

Principal joint ventures	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2012	2011
Premier Inn Hotels LLC	PTI Middle East Limited	Hotels	United Arab Emirates	49.0	49.0
Rosworth Investments Limited <sup>1</sup>	Costa International Limited	Holding company	Cyprus	50.0	50.0
Hualian Costa (Beijing) Food & Beverage Management Company Limited	Costa Beijing Limited	Coffee shops	China	50.0	50.0

<sup>1</sup>Rosworth Investments hold an investment in a subsidiary in Russia that operates coffee shops

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

Share of joint ventures' balance sheets	2012 £m	2011 £m
Current assets	5.4	4.5
Non-current assets	40.9	34.2
Share of gross assets	46.3	38.7
Current liabilities	(3.6)	(2.5)
Non-current liabilities	(28.8)	(23.6)
Share of gross liabilities	(32.4)	(26.1)
Loans to joint ventures	4.8	4.8
Share of net assets	18.7	17.4
Share of joint ventures' revenue and expenses	2011/12 £m	2010/11 £m
Revenue	14.1	9.5
Cost of sales	(2.8)	(1.7)
Administrative expenses	(10.8)	(8.9)
Finance costs	(1.0)	(1.0)
Operating loss before tax and exceptionals	(0.5)	(2.1)
Disposal of fixed assets	(0.2)	-
Impairment of fixed assets	-	(0.7)
Loss before tax	(0.7)	(2.8)
Tax	-	-
Net loss	(0.7)	(2.8)

At 1 March 2012 the Group's share of the capital commitments of its joint ventures amounted to £7.3m (2011 £5.9m)

# At 1 March 2012

## Notes to the consolidated financial statements

### 17 Investment in associate

Principal associate	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2012	2011
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	2012 £m	2011 £m
Current assets	1.5	1.3
Non-current assets	5.2	5.2
Share of gross assets	6.7	6.5
Current liabilities	(0.4)	(0.5)
Non-current liabilities	(4.7)	(4.6)
Share of gross liabilities	(5.1)	(5.1)
Share of net assets	1.6	1.4
Share of associate's revenue and profit	2011/12 £m	2010/11 £m
Revenue	2.9	2.8
Profit	0.9	0.8

### 18 Other financial assets - non-current

	2012 £m	2011 £m
Opening cost or valuation	0.9	0.9
Impairment	(0.9)	-
Closing cost or valuation	-	0.9

The Group's other financial asset related to an investment in a German hotel which was held at fair value. This asset has been assessed and the Group believe that its value is impaired

### 19 Inventories

	2012 £m	2011 £m
Raw materials and consumables (at cost)	3.9	2.1
Finished goods (at cost)	19.2	16.3
Total inventories at lower of cost and net realisable value	23.1	18.4

### 20 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	47.7	49.9
Prepayments and accrued income	32.9	29.7
Other receivables	8.0	7.6
	88.6	87.2
Analysed as		
Current	85.0	84.3
Non-current - other receivables	3.6	2.9
	88.6	87.2

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

The provision for impairment of receivables at 1 March 2012 was £3.6m (2011: £3.3m)

## 20 Trade and other receivables (continued)

The ageing analysis of trade receivables is as follows	2012 £m	2011 £m
Neither past due nor impaired	39.0	39.2
Less than 30 days	7.6	5.9
Between 30 and 60 days	0.7	1.4
Greater than 60 days	0.4	3.4
	<b>47.7</b>	<b>49.9</b>

## 21 Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	40.3	33.9
Short-term deposits	-	4.3
	<b>40.3</b>	<b>38.2</b>

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 £40.3m (2011: £38.2m).

For the purposes of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following:

	2012 £m	2011 £m
Cash at bank and in hand	40.3	33.9
Short-term deposits	-	4.3
Bank overdrafts (note 23)	(0.7)	(4.0)
	<b>39.6</b>	<b>34.2</b>

## 22 Financial liabilities

	Maturity	Current		Non-current	
		2012 £m	2011 £m	2012 £m	2011 £m
Bank overdrafts	On demand	0.7	4.0	-	-
Short-term borrowings	On demand	13.5	-	-	-
		<b>14.2</b>	<b>4.0</b>	-	-
Unsecured					
Other loans	2010 to 2014	-	0.2	-	0.5
Revolving credit facility (£650m)	2016	-	-	272.9	-
Revolving credit facility (£700m)	n/a	-	-	-	426.1
Revolving credit facility (£455m)	n/a	-	-	-	-
Private placement loan notes	2017 to 2022	-	-	257.5	95.3
Total		<b>14.2</b>	<b>4.2</b>	<b>530.4</b>	<b>521.9</b>

### Short-term borrowings

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

### Revolving credit facility (£650m)

The revolving facility was entered into on 4 November 2011 and runs until November 2016. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

### Revolving credit facility (£700m)

With the introduction of the £650m facility, this facility was cancelled.

### Revolving credit facility (£455m)

With the introduction of the £650m facility, this facility was cancelled.

# At 1 March 2012

## Notes to the consolidated financial statements

### 22 Financial liabilities (continued)

#### Private placement loan notes

The Group completed a financing transaction in the United States Private Placement market on 6 September 2011 with issue notes amounting to \$210m and £25m. This is in addition to the transaction entered into in the previous financial year. The Group now holds loan notes with coupons and maturities as shown in the following table.

Title	Year issued	Principal value	Maturity	Coupon
Series A loan notes	2010	\$40 Om	13-Aug-17	4.55%
Series B loan notes	2010	\$75 Om	13-Aug-20	5.23%
Series C loan notes	2010	£25 Om	13-Aug-20	5.19%
Series A loan notes	2011	\$60 Om	26-Jan-19	3.92%
Series B loan notes	2011	\$56.5m	26-Jan-19	4.12%
Series C loan notes	2011	\$93.5m	26-Jan-22	4.86%
Series D loan notes	2011	£25 Om	06-Sep-21	4.89%

Following the issue of loan notes in September 2011, the Group then entered into a number of cross-currency swap agreements which swapped USD to GBP at 1.5978 giving a total funding of £156.4m. In addition the Group receives interest payments which match the rates payable under the notes of between 4.2% and 5.1% and pays between 4.3% and 5.2%. These swaps eliminate any foreign exchange risk on interest rates or on the repayment of the principal borrowed.

These swaps have been formally designated as cash flow hedges and expire in line with the loan notes.

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
<b>Year ended 1 March 2012</b>					
Fixed rate	-	-	-	257.5	257.5
Fixed to floating rate swaps	-	-	-	(50.1)	(50.1)
Floating to fixed interest rate swaps	100.0	-	50.0	50.0	200.0
	<b>100.0</b>	-	<b>50.0</b>	<b>257.4</b>	<b>407.4</b>
Floating rate	14.2	-	272.9	-	287.1
Fixed to floating rate swaps	-	-	-	50.1	50.1
Floating to fixed interest rate swaps	(100.0)	-	(50.0)	(50.0)	(200.0)
	<b>(85.8)</b>	-	<b>222.9</b>	<b>0.1</b>	<b>137.2</b>
<b>Total</b>	<b>14.2</b>	-	<b>272.9</b>	<b>257.5</b>	<b>544.6</b>
<b>Year ended 3 March 2011</b>					
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
	<b>200.2</b>	<b>100.2</b>	<b>0.3</b>	<b>145.2</b>	<b>445.9</b>
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)
	<b>(196.0)</b>	<b>326.1</b>	-	<b>(49.9)</b>	<b>80.2</b>
<b>Total</b>	<b>4.2</b>	<b>426.3</b>	<b>0.3</b>	<b>95.3</b>	<b>526.1</b>

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 (2016) 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 1 March 2012, the Group had available £373.0m (2011: £503.9m) 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 £m	Cost of borrowings £m	Cash flow £m	Foreign exchange £m	Fair value adjustments to loan capital £m	Amortisation of premiums and discounts £m	1 March 2012 £m
<b>Year ended 1 March 2012</b>							
Cash at bank and in hand	38.2	-	-	-	-	-	40.3
Overdrafts	(4.0)	-	-	-	-	-	(0.7)
Cash and cash equivalents	34.2	-	5.3	0.1	-	-	39.6
Short-term bank borrowings	-	-	(13.5)	-	-	-	(13.5)
Loan capital under one year	(0.2)	-	-	-	-	-	-
Loan capital over one year	(521.9)	-	-	-	-	-	(530.4)
Total loan capital	(522.1)	5.4	(5.8)	-	(6.4)	(1.5)	(530.4)
Net debt	(487.9)	5.4	(14.0)	0.1	(6.4)	(1.5)	(504.3)
<b>Year ended 3 March 2011</b>							
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)

## 24 Provisions

	Onerous contracts £m	Reorganisation £m	Other £m	Total £m
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
Created	11.0	-	-	11.0
Unwinding of discount rate	0.8	-	-	0.8
Utilised	(8.0)	(1.2)	-	(9.2)
Transferred	-	-	-	-
At 1 March 2012	40.6	-	7.2	47.8
Analysed as				
Current	10.7	-	-	10.7
Non-current	29.9	-	7.2	37.1
	40.6	-	7.2	47.8

### 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% (2011: 3.74%) based on 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 25 years.

# At 1 March 2012

## Notes to the consolidated financial statements

### 24 Provisions (continued)

#### Reorganisation

The reorganisation provision related to the final redundancy costs of the IT simplification project. The provision has now been fully utilised.

#### Other

Other provisions relate to warranties given on the disposal of businesses. These are expected to be used over periods of up to five 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. At the year end, £407.4m (74.8%) of Group debt was fixed for an average of 5.50 years (2011: £445.9m, 84.7%, for 3.75 years), using floating rate borrowings and interest rate swaps. The intention is that the fixed rate debt ratio will reduce going forward as £100m of fixed rate debt expires within the financial year. The average rate of interest on this fixed rate debt was 5.3% (2010/11: 5.5%).

Although the private placement loan notes 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 1 March 2012 and 3 March 2011 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 £1.3m (2010/11: £0.7m), and equity by approximately £7.8m (2011: £11.3m).

#### Liquidity risk

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.

## 25 Financial risk management objectives and policies (continued)

The tables below summarise the maturity profile of the Group's financial liabilities at 1 March 2012 and 3 March 2011 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
<b>1 March 2012</b>						
Interest-bearing loans and borrowings	14.2	0.7	12.7	322.6	298.0	648.2
Derivative financial instruments	-	3.3	3.3	13.7	7.6	27.9
Trade and other payables	-	159.3	-	16.4	-	175.7
Accrued financial liabilities	-	-	105.5	-	-	105.5
Provisions in respect of financial liabilities	-	2.7	8.0	18.5	18.6	47.8
	<b>14.2</b>	<b>166.0</b>	<b>129.5</b>	<b>371.2</b>	<b>324.2</b>	<b>1,005.1</b>
<b>3 March 2011</b>						
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
	<b>4.0</b>	<b>163.3</b>	<b>113.8</b>	<b>494.8</b>	<b>140.3</b>	<b>916.2</b>

### 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 18 and 19 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 1 March 2012. 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.

# At 1 March 2012

## Notes to the consolidated financial statements

### 25 Financial risk management objectives and policies (continued)

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 a not adjusted for pensions and property leases 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.

### 26 Financial instruments

#### Fair values

As in the prior year the fair value of financial assets and liabilities disclosed in notes 18, 20, 21, 22, 23, 24 and 27 are considered to be approximately the same as their carrying amounts.

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.

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.

1 March 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
Derivative financial instruments	-	26.7	-	26.7
3 March 2011				
Financial assets				
Other financial asset	-	-	0.9	0.9
Financial liabilities				
Derivative financial instruments	-	32.9	-	32.9

During the year ended 1 March 2012 there were no transfers between levels 1, 2 or 3 fair value measurements. However, the other financial asset in the prior year level 3 classification has been impaired as per note 18. Derivative financial instruments include £20.1m (2011: £16.6m) due after one year. There are no material differences between the carrying values and fair values of derivative financial instruments.

### Derivative financial instruments

#### Hedges

##### Cash flow hedges

At 1 March 2012 the Group had interest rate swaps in place to swap a notional amount of £200.0m (2011: £400.0m) whereby it receives a variable interest rate based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 5.643% (2011: 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 Group also had cross-currency swaps in place whereby it received a fixed interest rate of between 3.92% and 4.86% (2011: 4.55%) on a notional amount of \$210.0m (2011: \$40.0m) and paid an average of 4.72% on a notional sterling balance of £158.2m (2011: 4.53% on £26.7m).

Refer to note 22 for details of current year cross-currency swaps entered into, following the issue of Series A, B, C and D loan notes in the US Private Placement market.

The swaps with maturities beyond the life of the current revolving credit facilities (2016) are in place to hedge against the core level of debt the Group will hold.

## 26 Financial instruments (continued)

### Fair value hedges

At 1 March 2012, the Group had cross-currency swaps in place whereby it received a fixed interest rate of 5.23% (2011 5.23%) on a notional amount of \$75.0m (2011 \$75.0m) and paid a spread of between 1.715% and 1.755% (2011 1.715% and 1.755%) over 6m GBP LIBOR on a notional sterling balance of £50.1m (2011 £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 1 March 2012 and a net unrealised loss of £1.0m (2010/11 net unrealised gain of £8.6m) has been recorded in other comprehensive income. The fair value hedges were also assessed to be highly effective at 1 March 2012 and a credit of £0.7m was recorded within interest in the income statement (2010/11 £nil). During the year, a loss of £16.9m (2010/11 £18.4m) was charged to the income statement in respect of hedged items affecting the net finance charge for the year.

## 27 Trade and other payables

	2012 £m	2011 £m
Trade payables	116.1	112.9
Other taxes and social security	36.4	41.7
Accruals and deferred income	125.6	89.4
Other payables	59.6	51.4
	<b>337.7</b>	<b>295.4</b>
Analysed as		
Current	321.3	280.2
Non-current	16.4	15.2
	<b>337.7</b>	<b>295.4</b>

## 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 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	<b>191.4</b>	<b>147.0</b>
Issued	0.5	0.4
Issued in lieu of dividends		
2010/11 final	0.1	0.1
2011/12 interim	-	-
At 1 March 2012	<b>192.0</b>	<b>147.5</b>

At the 2011 Annual General Meeting, the Company was authorised to purchase up to 17.7m of its own shares on the open market.

During the year no ordinary shares were acquired (2010/11 nil). No shares were cancelled in the year (2010/11 nil). The remainder are being held in the treasury reserve (note 29).

During the year to 1 March 2012 options over 0.5m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2010/11 0.3m).

Shareholders were offered a scrip alternative to the 2010/11 cash final dividend of 33.25p and to the 2011/12 cash interim dividend of 17.50p. Ordinary shares issued in respect of this totalled 157,741. 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, as used in the calculation of the basic weighted average number of ordinary shares, was 192.0m less 14.1m treasury shares held by Whitbread PLC and 0.9m held by the ESOT (2011 191.4m less 14.2m treasury shares held by Whitbread PLC and 0.9m held by the ESOT).

# At 1 March 2012

## Notes to the consolidated financial statements

### 28 Share capital (continued)

#### Preference share capital

Allotted, called up and fully paid shares of 1p each (2011 1p each)

	B Shares		C Shares	
	million	£m	million	£m
At 4 March 2010	2.0	-	1.9	-
Repurchased and cancelled	-	-	-	-
At 3 March 2011	2.0	-	1.9	-
Repurchased and cancelled	-	-	-	-
<b>At 1 March 2012</b>	<b>2.0</b>	<b>-</b>	<b>1.9</b>	<b>-</b>

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 £0.1m were issued in lieu of the 2010/11 final and 2011/12 interim cash dividends (2010/11 £0.4m)

#### 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

#### 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

#### 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

The total of the Treasury, Merger and Hedging reserve equals other reserves in the Consolidated Balance Sheet

### 29 Reserves (continued)

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 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
Transferred	(0.1)	(2.1)	0.1	2.1
Purchased	-	-	0.3	5.2
Exercised during the year	-	-	(0.4)	(5.8)
At 1 March 2012	14.1	206.6	0.9	13.7

The treasury shares reduce the amount of reserves available for distribution to shareholders by £220.3m (2011 £220.9m)

### 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 and future market rates of interest.

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

	2012 £m	2011 £m
Due within one year	132.1	109.5
Due after one year but not more than five years	465.5	385.8
Due after five years but not more than ten years	393.3	326.0
Due after ten years	996.3	1,025.0
	1,987.2	1,846.3

Future minimum rentals payable under non-cancellable operating leases disclosed above includes £127.7m in relation to privity contracts (2010/11 £94.3m). 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 13.9 years (2011 16.0 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 1 March 2012 are £16.6m (2011 £18.8m).

#### Contingent liabilities

As disclosed in note 6, in the previous year 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.

# At 1 March 2012

## Notes to the consolidated financial statements

### 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 13 to 22.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows

	2012 Awards	2011 Awards
Outstanding at the beginning of the year	701,386	630,222
Granted during the year	336,402	196,104
Exercised during the year	(115,735)	(95,072)
Expired during the year	(33,168)	(29,868)
Outstanding at the end of the year	<b>888,885</b>	<b>701,386</b>

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

	2012 Awards	2011 Awards
Outstanding at the beginning of the year	406,878	451,366
Granted during the year	302,014	338,233
Exercised during the year	(313,861)	(379,869)
Expired during the year	(1,788)	(2,852)
Outstanding at the end of the year	<b>393,243</b>	<b>406,878</b>

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 at the beginning of the year 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. This option was exercised during the year and no further options remain outstanding.

### 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

	2012		2011	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	897	5.39	1,767	5.39
Exercised during the year	(897)	5.39	(870)	5.39
Outstanding at the end of the year	-	-	897	5.39
Exercisable at the end of the year	-	-	897	5.39

No executive share options remained outstanding as at 1 March 2012

#### 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

	2012		2011	
	Options	WAEP (£ per share)	Options	WAEP (£ per share)
Outstanding at the beginning of the year	1,304,032	9.74	1,340,142	8.76
Granted during the year	514,594	13.39	313,617	14.14
Exercised during the year	(455,411)	7.53	(142,975)	10.72
Expired during the year	(203,076)	11.55	(206,752)	9.37
Outstanding at the end of the year	1,160,139	11.91	1,304,032	9.74
Exercisable at the end of the year	52,036	7.46	23,081	11.50

The weighted average contractual life for the share options outstanding as at 1 March 2012 is between two and three years and are exercisable at prices between £7.28 and £14.17 (2011: £7.28 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 £16.68 (2011: £17.22).

	2011/12 £m	2010/11 £m
Total charged to the income statement		
Long-Term Incentive Plan	2.4	2.2
Deferred equity	3.7	4.0
Employee share scheme	1.9	1.6
	<b>8.0</b>	<b>7.8</b>
Equity-settled	7.9	7.7
Cash-settled	0.1	0.1
	<b>8.0</b>	<b>7.8</b>

# At 1 March 2012

## Notes to the consolidated financial statements

### 31 Share-based payment plans (continued)

The following table lists the inputs to the model used for the years ended 1 March 2012 and 3 March 2011

	Grant date	Number of shares granted	Fair value	Fair value £	Exercise price £	Price at grant date £	Expected term (years)	Expected dividend yield	Expected volatility	Risk-free rate	Vesting conditions
LTIP awards	09 05 2011	168,201	44 1%	1,220,271	–	16 45	3	2 71%	37%	1 33%	Market <sup>1 3</sup>
	09 05 2011	168,201	92 2%	2,551,228	–	16 45	3	2 71%	37%	1 33%	Non market <sup>2 3</sup>
	28 04 2010	98,052	54 1%	819,563	–	15 45	3	2 46%	42%	1 73%	Market <sup>1 3</sup>
	28 04 2010	98,052	92 9%	1,407,345	–	15 45	3	2 46%	42%	1 73%	Non market <sup>2 3</sup>
Deferred equity awards	09 05 2011	302,014	92 2%	4,580,868	–	16 45	3	2 71%	37%	1 33%	Non-market <sup>3</sup>
	28 04 2010	338,233	92 9%	4,853,996	–	15 45	3	2 46%	42%	1 73%	Non-market <sup>3</sup>
SAYE - 3 years	02 12 2011	425,494	27 4%	1,912,000	13 39	16 42	3 25	3 10%	36%	0 50%	Non-market <sup>3</sup>
	01 12 2010	226,344	33 4%	1,347,000	14 14	17 82	3 25	2 22%	40%	1 22%	Non-market <sup>3</sup>
SAYE - 5 years	02 12 2011	89,100	33 1%	483,600	13 39	16 42	5 25	3 10%	35%	1 10%	Non market <sup>3</sup>
	01 12 2010	87,273	35 4%	550,200	14 14	17 82	5 25	2 22%	35%	2 14%	Non market <sup>3</sup>

<sup>1</sup> Total shareholder return (TSR)

<sup>2</sup> Earnings per share

<sup>3</sup> 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 1 March 2012 there were outstanding options for employees to purchase up to 1.2m (2011 1.3m) ordinary shares of 76.80 pence each between 2011 and 2016 at prices between £7.28 and £14.17 per share (2011 between 2011 and 2016 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 1 March 2012 (2011 0.9m). 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 £3.6m (2010/11 £3.3m).

At the year end, 1,812 employees (2011 1,743) were active members of the schemes, which also had 6,777 deferred members (2011 6,791).

#### 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.

### **32 Retirement benefits (continued)**

#### **Defined benefit schemes (continued)**

At the year end the scheme had no active members (2011 nil), 25,500 deferred pensioners (2011 26,101) and 16,511 pensions in payment (2011 16,258)

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 made a £85m payment in 2011/12, which included an accelerated payment of £25m, and will make the following payments to the Fund: £30m in August 2012 and £55m in 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.

Moorgate SLP holds an investment in a further partnership, Farringdon Scottish Partnership, which was also established by the Group during 2009/10. 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 13 years. At the end of this period, the partnership capital allocated to the Pension Scheme partner will be transferred in cash to the Pension Scheme up to a value of £150m (2011 £150m), depending on the funding position of the Pension Scheme at that time.

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 (2011 £141m) investment in Moorgate SLP held by the Pension Scheme.

The total service cost contributions to the Whitbread Group Pension Fund in 2012/13 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.

# At 1 March 2012

## Notes to the consolidated financial statements

### 32 Retirement benefits (continued)

#### Defined benefit schemes (continued)

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 1 March 2012 for IAS 19 purposes were

	At 1 March 2012	At 3 March 2011
Rate of increase in salaries	n/a <sup>1</sup>	n/a <sup>1</sup>
Pre April 2006 rate of increase in pensions in payment and deferred pensions	<b>3.00%</b>	3.25%
Post April 2006 rate of increase in pensions in payment and deferred pensions	<b>2.20%</b>	2.15%
Pension increases in deferment	<b>3.00%</b>	3.45%
Discount rate	<b>4.65%</b>	5.60%
Inflation assumption	<b>3.15%</b>	3.45%

*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 20.8 years (2011: 20.7) if they are male and for a further 23.3 years (2011: 23.2) if they are female. For a member who retires in 2031 at age 65, the assumptions are that they will live on average for a further 22.6 years (2011: 22.6) after retirement if they are male and for a further 25.1 years (2011: 25.0) 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 1 March 2012 (rounded to the nearest 0.1% per annum).

The weighted average of the expected rates of return on the asset base is assumed to be 2.45% (2011: 3.25%) per annum above inflation.

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

Amounts recognised in operating profit for service costs or curtailment are £nil (2010/11: £nil).

	2011/12 £m	2010/11 £m
Expected return on scheme assets	<b>(81.6)</b>	(82.5)
Interest cost on scheme liabilities	<b>95.6</b>	94.0
Other finance cost (note 8)	<b>14.0</b>	11.5

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

	2011/12 £m	2010/11 £m
Actual return on scheme assets	<b>66.7</b>	42.9
Less: expected return on scheme assets	<b>(81.6)</b>	(82.5)
Other actuarial gains and losses	<b>(177.2)</b>	(11.8)
	<b>(192.1)</b>	(51.4)

Actuarial gains and losses have been recognised in the consolidated statement of comprehensive income.

The amounts recognised in the balance sheet are as follows:

	2011/12 £m	2010/11 £m
Present value of defined benefit obligations	<b>(1,939.7)</b>	(1,745.0)
Fair value of scheme assets	<b>1,341.0</b>	1,257.0
Liability recognised in the balance sheet	<b>(598.7)</b>	(488.0)

### 32 Retirement benefits (continued)

#### Defined benefit schemes (continued)

During the year the accounting deficit increased from £488.0m at 3 March 2011 to £598.7m at 1 March 2012. The asset performance was worse than expected over the period which has led to a modest loss. However, the principal reason for the increase is the reduction in the discount rate.

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

	2012 £m	2011 £m
Opening defined benefit obligation	1,745.0	1,715.0
Net interest cost	95.6	94.0
Actuarial losses on scheme liabilities	177.2	11.8
Benefits paid	(77.6)	(75.6)
Benefits settled by the Company in relation to an unfunded pension scheme	(0.5)	(0.2)
Closing defined benefit obligation	1,939.7	1,745.0

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

	2012 £m	2011 £m
Opening fair value of scheme assets	1,257.0	1,281.0
Expected return on scheme assets	81.6	82.5
Actuarial losses on scheme assets	(14.9)	(39.6)
Contributions from employer	86.8	1.8
Additional contributions from Moorgate SLP	8.1	6.9
Benefits paid	(77.6)	(75.6)
Closing fair value of scheme assets	1,341.0	1,257.0

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	
	2012 %	2011 %	2012 £m	2011 £m
Equities	7.2	8.2	727.3	696.2
Government bonds	3.2	4.5	374.8	124.0
Corporate bonds	4.6	5.4	131.3	302.1
Property	5.7	7.0	45.8	41.6
Cash	3.2	4.5	61.8	93.1
			1,341.0	1,257.0

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	(1,939.7)	(1,745.0)	(1,715.0)	(1,340.0)	(1,405.0)
Fair value of scheme assets	1,341.0	1,257.0	1,281.0	1,107.0	1,372.0
Liability recognised in the balance sheet	(598.7)	(488.0)	(434.0)	(233.0)	(33.0)
Experience adjustments on scheme liabilities (£m)	12.8	(25.8)	(3.0)	(7.5)	(7.5)
Percentage of scheme liabilities (%)	(0.66)%	1.48%	0.17%	0.60%	0.50%
Experience adjustments on scheme assets (£m)	(14.9)	(39.6)	173.0	(338.0)	(66.5)
Percentage of scheme assets (%)	(1.11)%	(3.15)%	13.51%	(30.50)%	(4.80)%

The cumulative amount of actuarial gains and losses recognised since 4 March 2004 in the Group Consolidated Statement of Comprehensive Income is £(629.1)m (2011: £(437.0)m).

# At 1 March 2012

## Notes to the consolidated financial statements

### 32 Retirement benefits (continued)

#### Defined benefit schemes (continued)

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	
	2012 £m	2011 £m
0.25% increase to discount rate	<b>80.0</b>	70.0
Additional one year increase to life expectancy	<b>(70.0)</b>	(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	
			2012	2011
Whitbread Group PLC	Hotels & Restaurants	England	<b>100.0</b>	100.0
Premier Inn Hotels Limited	Hotels	England	<b>100.0</b>	100.0
Whitbread Restaurants Limited	Restaurants	England	<b>100.0</b>	100.0
Premier Inn Limited	Hotels	England	<b>100.0</b>	100.0
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England	<b>100.0</b>	100.0
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China	<b>51.0</b>	51.0
Coffeeheaven International Limited	Operators of coffee shops in eastern Europe	England	<b>100.0</b>	100.0
Coffee Nation Limited	Operators of customer facing espresso based coffee vending machines	England	<b>100.0</b>	100.0

The Group holds a 6% partnership interest in Moorgate Scottish Limited Partnership with Whitbread Pension Trustees. Moorgate SLP holds a 67.8% investment in a further partnership, Farringdon Scottish Partnership which was established by the Group to hold property assets. The partnerships were set up in 2009/10 as part of a transaction with Whitbread Pension Trustees and the Group retains control over both partnerships and as such they are fully consolidated in these Group financial statements. Further details can be found in note 32.

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. 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			
2011/12	<b>2.8</b>	<b>1.3</b>	-
2010/11	1.8	0.3	-
Associate			
2011/12	<b>3.1</b>	-	<b>2.5</b>
2010/11	3.1	-	2.5

### 33 Related party disclosure (continued)

#### Compensation of key management personnel (including directors)

	2011/12 £m	2010/11 £m
Short-term employee benefits	5.1	6.0
Post-employment benefits	0.3	0.3
Share-based payments	5.5	4.8
	<b>10.9</b>	<b>11.1</b>

#### 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 1 March 2012, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties (2011: £0.2m). 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 13 to 22.

### 34 Events after the balance sheet date

A final dividend of 33.75p per share (2011: 33.25p) amounting to a dividend of £59.7m (2011: £58.6m) was recommended by the directors at their meeting on 25 April 2012. A scrip alternative will be offered. These financial statements do not reflect this dividend payable.

---

# 2011/12 Company Accounts

## **Company accounts 2011/12**

---

**72** Directors' responsibility for  
the Company financial  
statements/audit report

---

**73** Balance sheet

---

**74** Notes to the accounts

---

**78** Shareholder services

---

## 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 1 March 2012 which comprise the 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 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 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 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 1 March 2012,

- 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.

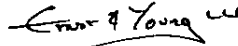
### Matters on which we are required to report by exception

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 1 March 2012.

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

London

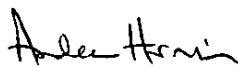
25 April 2012

# At 1 March 2012

## Balance sheet

	Notes	2012 £m	2011 £m
<b>Fixed assets</b>			
Investment in subsidiaries	5	<b>2,256.1</b>	2,256.1
<b>Total non-current assets</b>		<b>2,256.1</b>	2,256.1
<b>Current assets</b>			
Debtors amounts falling due within one year	6	<b>197.6</b>	266.9
<b>Current liabilities</b>			
Creditors amounts falling due within one year	7	<b>(4.1)</b>	(1.0)
<b>Net current assets</b>		<b>193.5</b>	265.9
<b>Net Assets</b>		<b>2,449.6</b>	2,522.0
<b>Capital and reserves</b>			
Share capital	8	<b>147.5</b>	147.0
Share premium	9	<b>53.7</b>	50.8
Capital redemption reserve	9	<b>12.3</b>	12.3
Retained earnings	9	<b>2,442.7</b>	2,520.6
Other reserves	9	<b>(206.6)</b>	(208.7)
<b>Shareholders' funds</b>	9	<b>2,449.6</b>	2,522.0

Andy Harrison  
Chief Executive



Christopher Rogers  
Finance Director



25 April 2012

# At 1 March 2012

## Notes to the accounts

### 1 Basis of accounting

The financial statements of Whitbread PLC for the year ended 1 March 2012 were authorised for issue by the Board of Directors on 25 April 2012

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 £11.2m (2011: £2.1m)

### 4 Dividends paid and proposed

	2011/12		2010/11	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year	<b>33.25</b>	<b>58.6</b>	28.35	49.7
Settled via scrip issue		<b>(1.5)</b>		<b>(1.7)</b>
Paid in the year		<b>57.1</b>		<b>48.0</b>
Interim dividend for the current year	<b>17.50</b>	<b>31.0</b>	11.25	19.7
Settled via scrip issue		<b>(1.1)</b>		<b>(6.2)</b>
Paid in the year		<b>29.9</b>		<b>13.5</b>
B share dividend	<b>1.18</b>	-	1.60	-
C share dividend	<b>1.28</b>	-	1.01	-
		<b>0.0</b>		<b>0.0</b>
<b>Total dividends paid</b>		<b>87.0</b>		<b>61.5</b>
Proposed for approval at Annual General Meeting				
Final dividend for the current year	<b>33.75</b>	<b>59.7</b>	33.25	<b>58.6</b>

A final dividend of 33.75p per share (2011: 33.25p) amounting to a dividend of £59.7m (2011: £58.6m) was recommended by the directors at their meeting on 25 April 2012. A scrip alternative will be offered. These financial statements do not reflect this dividend payable.

## 5 Investment in subsidiary undertakings

Shares at cost	2012 £m	2011 £m
<b>At 3 March 2011 and 1 March 2012</b>	<b>2,256.1</b>	<b>2,256.1</b>

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

The Company holds a 6% partnership interest in Moorgate Scottish Limited Partnership with Whitbread Pension Trustees. Moorgate SLP holds a 67.8% investment in a further partnership, Farringdon Scottish Partnership which was established by the Group to hold property assets. The partnerships were set up in 2009/10 as part of a transaction with Whitbread Pension Trustees. Further details can be found in note 32 of the Whitbread PLC consolidated accounts.

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. 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	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	<b>197.6</b>	266.9
	<b>197.6</b>	<b>266.9</b>

## 7 Creditors

Amounts falling due within one year	2012 £m	2011 £m
Other creditors	<b>0.2</b>	0.2
Corporation tax payable	<b>3.9</b>	0.8
	<b>4.1</b>	<b>1.0</b>

## At 1 March 2012

### Notes to the accounts

#### 8 Share capital

Allotted, called up and fully paid ordinary shares of 76 80p each (2011 76 80p each)	million	£m
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
Issued	0.5	0.4
Issued in lieu of dividends		
2010/11 final	0.1	0.1
2011/12 interim	-	-
<b>At 1 March 2012</b>	<b>192.0</b>	<b>147.5</b>

At the 2011 Annual General Meeting, the Company was authorised to purchase up to 17.7m of its own shares on the open market

During the year no ordinary shares were acquired (2010/11 nil). No shares were cancelled in the year (2010/11 nil). The remainder are being held in the treasury reserve (note 9)

During the year to 1 March 2012, options over 0.5m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2010/11 0.3m)

Shareholders were offered a scrip alternative to the 2010/11 cash final dividend of 33.25p and to the 2011/12 cash interim dividend of 17.50p. Ordinary shares issued in respect of this totalled 157,741. 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 4 March 2010, 3 March 2011 and 1 March 2012	2.0	-	1.9	-

At 1 March 2012 there were outstanding options for employees to purchase up to 1.2m (2011 1.3m) ordinary shares of 76.80 pence each between 2011 and 2016 at prices between £7.28 and £14.17 per share (2011 between 2011 and 2016 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 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
Ordinary shares issued	0.4	3.0	-	-	-	3.4
Transfer of shares	-	-	-	(2.1)	2.1	-
Scrip dividends	0.1	(0.1)	-	2.6	-	2.6
Profit for the financial year	-	-	-	11.2	-	11.2
Equity dividends	-	-	-	(89.6)	-	(89.6)
At 1 March 2012	147.5	53.7	12.3	2,442.7	(206.6)	2,449.6

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

	Treasury shares held by Whitbread PLC million £m	
At 3 March 2011	14.2	208.7
Transferred during the year	(0.1)	(2.1)
At 1 March 2012	14.1	206.6

## 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 £13.7m (2011: £20.5m)

## Shareholder services

### Contact details

#### Registrars.

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

The website address is  
[www.capitaregistrars.com](http://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. Alternatively you can email [whitbread@capitaregistrars.com](mailto:whitbread@capitaregistrars.com)

You can also manage your shareholding by visiting [www.whitbread-shares.com](http://www.whitbread-shares.com). This is a secure online site where you can

- **Sign up** to receive shareholder information by emails instead of post
- **Buy and sell** shares via the Capita Share Dealing Service\*
- **View** your holding and get an indicative valuation
- **Change** your personal details

(Please have your investor code to hand which can be found on any of the following documentation, share certificate, dividend voucher or proxy card.)

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

#### Registered office

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

#### General Counsel and Company Secretary

Simon Barratt

#### Share dealing service\*

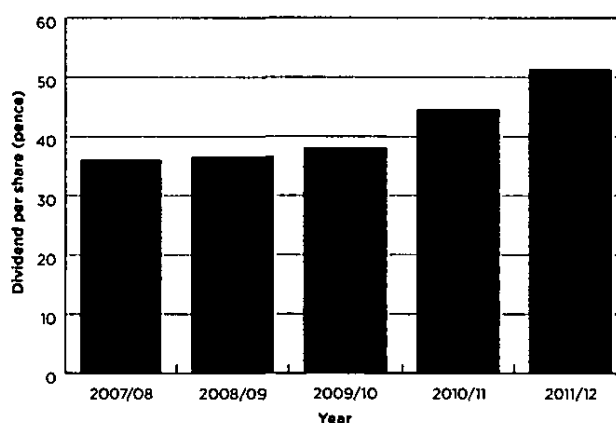
Capita Share Dealing Services tel 0871 664 0446  
(calls cost 10p per minute plus network extras, lines are open 8am to 4.30pm, Monday to Friday)  
[www.capitadeal.com](http://www.capitadeal.com)\*

*\*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.*

### Dividend payments 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 please call the registrars on 0844 855 2327.

### Five-year dividend history\*



\*Excluding special dividend payments and returns of capital

### Dividend diary 2012/13

Ex dividend date for final dividend	16 May 2012
Record date for final dividend	18 May 2012
Payment of final dividend	13 July 2012
Ex dividend date for interim dividend	7 November 2012
Record date for interim dividend	9 November 2012
Payment of interim dividend	10 January 2013

### Scrip 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 contact details given above.

### Financial reporting calendar

(dates subject to confirmation)

Half year end	30 August 2012
Announcement of half year results	23 October 2012
End of financial year	28 February 2013

### 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](http://www.sharegift.org) or by calling 020 7930 3737

### Capital gains tax

Please refer to the investor section of the Company's website [www.whitbread.co.uk](http://www.whitbread.co.uk) for more information on

- the market value of shares in the Company as at 31 March 1982,
- the reduction of capital on 10 May 2001,
- the special dividend and share consolidation in May 2005, and
- allocations relating to the B and C shares

### Unsolicited mail

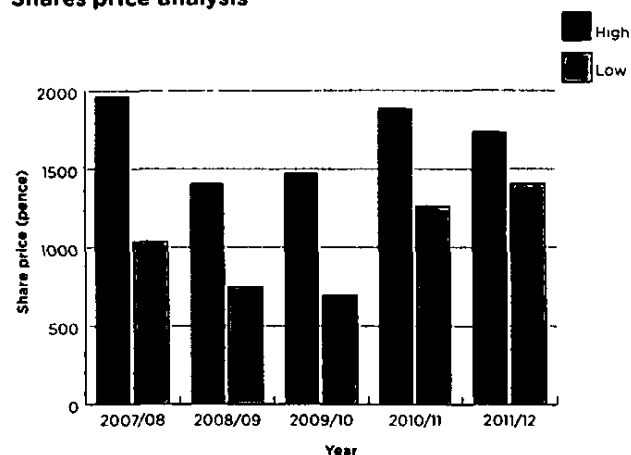
We are aware that some shareholders have had occasion to complain of the use, by outside organisations, of information obtained from Whitbread's share register. Whitbread like other companies cannot, by law, refuse to supply such information provided that the organisation concerned pays the appropriate 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 0845 703 4599 or you may prefer to register online [www.mpsonline.org.uk](http://www.mpsonline.org.uk)

### Analysis of shares at 1 March 2012

<u>Band</u>	<u>Number of holders</u>	<u>% of holders</u>	<u>Number of shares</u>	<u>% of share capital</u>
<b>1 – 100</b>	25,843	50.29	951,258	0.50
<b>101 – 500</b>	17,771	34.59	4,307,619	2.24
<b>501 – 1,000</b>	4,295	8.36	3,031,027	1.58
<b>1,001 – 5,000</b>	2,621	5.10	4,796,141	2.50
<b>5,001 – 10,000</b>	211	0.41	1,457,724	0.76
<b>10,001 – 50,000</b>	312	0.61	7,647,614	3.98
<b>50,001 – 100,000</b>	88	0.17	6,321,931	3.29
<b>100,001 – 500,000</b>	176	0.34	38,409,949	20.00
<b>500,001 – 1,000,000</b>	32	0.06	21,468,564	11.18
<b>1,000,001 – 5,000,000</b>	28	0.05	50,761,856	26.44
<b>5,000,001+</b>	6	0.01	52,862,572	27.53
<b>Total</b>	<b>51,383</b>		<b>192,016,255</b>	

### Shares price analysis



### Annual General Meeting 2012

The 2012 AGM will be held at 2.00pm on Tuesday 19 June 2012 at The Queen Elizabeth Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE

## Shareholder services

### **Warning to shareholders - boiler room scams**

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported the average amount lost by investors is around £20,000, with around £200m lost in the UK each year.

It is not just the novice investor that has been duped in this way, many of the victims had been successfully investing for several years. Shareholders are advised to be wary of unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- Check that they are properly authorised by the FSA before getting involved by visiting [www.fsa.gov.uk/fsaregister](http://www.fsa.gov.uk/fsaregister) and contact the firm using the details on the register,
- Report the matter to the FSA either by calling 0845 606 1234 or visiting [www.fsa.gov.uk/pages/consumerinformation](http://www.fsa.gov.uk/pages/consumerinformation),
- If the calls persist, hang up, and
- REMEMBER if it sounds too good to be true, it probably is!

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme (FSCS) if things go wrong. The FSA can be contacted by completing an online form at <http://www.fsa.gov.uk/Pages/Doing/Regulated/Law/Alerts/form.shtml>

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FSA website [www.fsa.gov.uk/pages/consumerinformation](http://www.fsa.gov.uk/pages/consumerinformation)

### **Shareholder FAQs**

#### **What are my benefits as a shareholder?**

Shareholders who have a holding of 64 or more ordinary shares are eligible to receive shareholder discount vouchers. To obtain these you will need to contact the Company registrars by telephone, email or letter. (The registrars' contact details can be found on page 78.)

#### **I have lost my share certificate, how can I get a replacement?**

If you have lost your certificate please contact the registrars, Capita Registrars, on the shareholder helpline (0844 855 2327) to advise them the certificate is missing. They will then be able to assist you in arranging a replacement.

#### **Where can I find the current share price?**

You can keep up to date with the current share price by visiting the Company's website [www.whitbread.co.uk](http://www.whitbread.co.uk)

#### **Will I have an opportunity to redeem my B and/or C shares?**

As outlined in the original circulars, the Company made two separate purchase offers for the B and C Shares. There will be no further purchase offers. The Company does have the right to convert the B and C Shares to Ordinary Shares but there is no current intention to do so. The B and C Shares will continue to attract an annual dividend payment.

[www.whitbread.co.uk](http://www.whitbread.co.uk)

Designed by Columns.

It is important that our Annual Report is produced in an environmentally responsible manner including the sourcing of materials. The material used in this report is certified as 100% recycled by the Forest Stewardship Council.

This Annual Report and Accounts was printed by Royle Print Limited, a carbon-neutral printing company. It was originated, printed and bound on one production site and only required electric transportation between processes. Under the framework of ISO 14001, Royle Print takes a structured approach to measure, improve and audit its environmental status on an ongoing basis. The main areas targeted for continual reduction arise from the use of solvents, energy consumption and waste generation. Royle Print is also Forest Stewardship Council (FSC) chain of custody certified.

When you have finished with this report, please dispose of it in your recycled paper waste.

