



Whitbread PLC

Annual report and accounts 2012/13

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WHITBREAD PLC

Annual Report and Accounts 2012/13

“Making everyday experiences special”



Financial highlights

This is another set of excellent Whitbread results, delivering double digit growth in sales, profit and dividend.

More on our financial performance

- p4 Chairman's statement
- p6 Chief Executive's review
- p30 Finance Director's review

Total revenue	Underlying basic EPS	
£2,030.0m	+14.2%	150.45p
2012/13 £2,030.0m		150.45p
2011/12 £1,778.0m		134.35p
2010/11 £1,599.6m		116.75p
2009/10 £1,435.0m		96.95p
Underlying profit ¹ before tax	Full year dividend	
£356.5m	+11.4%	57.40p
2012/13 £356.5m		57.40p
2011/12 £320.1m		51.25p
2010/11 £287.5m		44.50p
2009/10 £239.1m		38.00p
Group return on capital ²	Cash flow from operations ³	
13.6% to 14.0%		£478.3m to £526.0m
£504.3m to £471.1m		£307.9m to £343.6m

¹ Underlying profit excluding amortisation of acquired intangibles, exceptional items and the impact of the pension finance cost as accounted for under IAS 19.

² Return on capital is the return on invested capital which is calculated by dividing the underlying profit before interest and tax for the year by net assets at the balance sheet date adding back debt, taxation liabilities and the pension deficit.

³ Cash generated from operations in the financial statements excluding the pension payments.

Whitbread is all about people. As the UK's leading hospitality company our success is down to 40,000 motivated and engaged team members delivering outstanding service to 22 million customers every month across our hotels, coffee shops and restaurants.

Our vision is to grow legendary brands by building a strong Customer Heartbeat and innovating to stay ahead. It's our Winning Teams that make everyday experiences special for our customers so they come back time and again, driving Profitable Growth. Our Good Together programme makes us a force for good in our communities.

We use this simple model, which we call The Whitbread Way, to describe our business philosophy.



- More on Winning Teams on p12 and p20
- More on Customer Heartbeat on p14 and p22
- More on Profitable Growth on p16 and p24
- More on Good Together on p9, p17 and p25

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Group at a glance

The Group

Whitbread

Whitbread has built some of the UK's most successful, much-loved hospitality brands including Premier Inn and Costa. We employ over 40,000 people worldwide and serve 22 million customers every month.

We've set our sights on ambitious and fast-paced profitable growth and have just announced new growth milestones. By 2018 we plan to increase the size of Premier Inn by 45% to around 75,000 UK rooms and roughly double the system sales of Costa to around £2 billion.

Although our businesses span different areas of the hospitality business, they all share common values and a clear vision on responsibility. We have demonstrated our ability to build strong brands through the consistent delivery of operational excellence and a great customer experience in people intensive businesses.

Listed on the London Stock Exchange, Whitbread PLC is a member of the FTSE 100 and the FTSE4Good indices.

The Businesses

Hotels & Restaurants

Premier Inn is the UK's leading, and award-winning, hotel business, with 649 hotels and more than 51,000 rooms across the UK. More than 75% of the UK population live within five miles of a Premier Inn. Internationally we have four hotels in the Middle East and two in India.

We offer our customers a 100% money-back guarantee of a good night's sleep as well as a quality room, comfortable surroundings and friendly service. We call it our Good Night Guarantee.

All Premier Inn UK bedrooms have an ensuite bathroom, TV with Freeview and Wi-Fi internet access. All our hotels have a bar and restaurant, either inside the building, or next to it offering a wide range of dishes. 372 of these restaurants are our own brands: Beefeater; Brewers Fayre; Table Table; and Taybarns. We also have Thyme restaurants within a number of our city centre sites.

Highlights

- Our Winning Teams make everyday experiences special for our customers.
- The customer is at the heart of our business model.
- We are growing our leading brands with a clear focus on returns to create substantial shareholder value.
- Our Good Together programme makes us a force for good in our communities.

- More on p12 and p20
- More on p8, p14 and p22
- More on p16 and p24
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**Service everyday**

Whitbread serves around 22 million customers through 2,500 outlets in the UK, every month.

Revenue by business**Hotels & Restaurants**

Up 9.7%

Costa

Up 24.1%

Our continuing focus on improving customer propositions, investing in our estate and winning market share drove total sales up 14.2%.

Hotels & Restaurants

Revenue

2012/13	£1,360.1m
2011/12	£1,239.3m

Costa

Revenue

2012/13	£672.4m
2011/12	£541.9m

Growth**Hotels & Restaurants**

4,242 net new rooms
10 new restaurants

Costa

324 net new stores

Our strategy is to grow our leading brands with a clear focus on returns to deliver substantial shareholder value.

Premier Inn

Rooms

2012/13	52,967
2011/12	48,725

Restaurants

Rooms

2012/13	397
2011/12	387

Costa

Stores

2012/13	2,527
2011/12	2,203

Costa

Costa, voted the UK's favourite coffee shop, has grown significantly over the past five years and now has 1,578 stores in the UK and 949 overseas.

Only the very best coffee available goes into creating the unique taste and aroma of our Costa Mocha Italia blend – in fact, just 1% of the world's production is good enough for us to choose from. All the coffee we serve in the UK, and most of that served in the rest of the world, is roasted at our Lambeth roastery.

Costa is an international brand represented in 29 countries. It employs a multi-channel strategy, with equity stores, franchise stores and joint ventures as well as a wholesale operation and Costa Express, which now has 2,560 machines. A recently added channel is 'Costa at home', with Costa coffee being sold for use in domestic coffee machines for the first time.



COSTA
EXPRESS

Chairman's statement



Anthony Habgood
Chairman

Whitbread has grown its total sales in the year by over 14% and continued to produce strong operating cash flows of over £500 million. This has funded both significant organic investment to grow our businesses and a double digit percentage increase in our dividends while maintaining prudent debt levels. With the Premier Inn and Costa brand propositions going from strength to strength this growth is set to continue.

Our businesses continue to benefit from a consistent and long-term focus on their customers, with particular emphasis on continuing to refurbish and maintain the hotels, restaurants and coffee shops to high standards. I am pleased to see the level of innovation taking place throughout the Company, whether it is in the use of social media to communicate with our teams and customers or updating room designs. Our ability to invest in this way is again a consequence of our financial strength.



Learn everyday

This year we launched a new barista induction and skills training programme to more than 13,000 team members.

Chairman's statement continued

Dividend

The Board recommends a final dividend of 37.90p per share, making a total dividend of 57.40p per share, up by 12%. The final dividend will be paid on 12 July 2013 to shareholders on the register at the close of business on 17 May 2013. Once again, a scrip dividend alternative will be offered and further information on how shareholders can elect to participate in the scrip dividend scheme is available from the registrars or on the Company's website.

Full-year dividend

2012/13	57.40p
2011/12	51.25p
2010/11	44.50p
2009/10	38.00p

Board

We reported last year that Christopher Rogers would take over as Managing Director of Costa and that we had begun the search for a new Group Finance Director. I was pleased that Nicholas Cadbury joined as our new Group Finance Director in November 2012 from Premier Farnell PLC, where he had been Chief Financial Officer since 2011. Prior to that he had held a variety of roles at Dixons Retail PLC, including the position of Chief Financial Officer between 2008 and 2011. Nicholas is already proving to be an important member of our top management team as Whitbread continues on its growth path.

Louise Smalley, who has worked at Whitbread for 18 years and has been Group HR Director since 2007, also joined the Board in November 2012. At its heart, Whitbread is a hospitality business focused on people. Louise is instrumental in creating a great place to work for our 40,000 team members, developing our global talent and building leadership strength. Having worked closely with her over the last six years I know she will continue to be an invaluable contributor at the Board.

Governance

As a board of directors we have a duty to run the Company effectively and ethically on behalf of all of our key stakeholders. This is something that sets the tone for how we do business and is not simply about behaviour in the boardroom. I believe our fast and open reaction to the horse meat issues, which had been prevalent in our industry, was a good example of this behaviour.

More on p38

People

As you will see from our business model on page 8, the people who work for Whitbread really are a vital ingredient in the Company's success. Whether it's the people in our hotels, coffee shops and restaurants, or those providing them with the support so that they can concentrate on making everyday experiences feel special for our customers, they all play a vital role. Once again, I'd like to thank them all on behalf of the Board for their dedication, enthusiasm and professionalism this year.

Anthony Habgood
Chairman

29 April 2013



Open everyday

"I was delighted to open a new hotel in Waterloo in March 2013. I did this jointly with Mark Hoban, Minister for Employment, who praised our leading job creation and apprenticeship initiatives."

Chief Executive's review



Andy Harrison
Chief Executive

We delivered a strong financial performance in 2012/13 in a challenging consumer market. Total sales grew by 14.2% to £2,030.0 million. Group underlying profit before tax rose 11.4% to £356.5 million (2011/12: £320.1 million), with underlying basic EPS increasing by 12.0% to 150.45p.

Our strong cash flow from operations of £526.0 million allowed us to increase the dividend by 12.0% and reinvest £343.6 million in the business to open new sites and refurbish our existing estate. Our disciplined approach to deploying capital has enabled us to grow shareholder value year after year. In 2012/13 Group return on capital increased to 14% whilst we maintained our strong balance sheet with net debt of £471.1 million.

Whitbread Hotels & Restaurants delivered a strong performance with total sales up 9.7% and like for likes up 2.8%. Within Hotels & Restaurants, Premier Inn grew total sales by 13.1% and continued to outperform, with total revenue per available room growing by 1.7% compared to a decline of 3.6% for the Midscale and Economy sector and a growth of 0.8% for the total UK hotel market. Restaurants outperformed its competitive benchmark, the Coffer Peach industry tracker, with like for like sales growth of 2.3%. Costa produced another strong performance with total sales up 24.1% and worldwide system sales up 22.6% to £1.0 billion. In the UK its Retail equity business delivered 6.8% like for like sales increase and has now delivered an impressive 44 consecutive quarters of like for like sales growth.

Growth milestones

In April 2011 we established ambitious growth milestones to grow Premier Inn UK rooms to 65,000 rooms and to double Costa's worldwide system sales to £1.3 billion. We are well on track to achieve these targets and have announced new 2018 milestones, which will grow Premier Inn UK to around 75,000 rooms and double Costa's system sales to around £2 billion. This organic growth opportunity, together with our clear focus on returns, will create substantial shareholder value.

Premier Inn UK (number of rooms)

2010/11	43,219
2011/12	47,429
2012/13	51,671
Committed pipeline	c.10,000
Unconfirmed	c.13,400
2017/18	75,000

Current trading

In the first few weeks of our new financial year, Group trading has been in line with our plan. Premier Inn has maintained its positive momentum. The unseasonably cold weather has held back sales within Restaurants, and benefitted Costa.

Making everyday experiences special

Whitbread is a people intensive business. We have 22 million customers a month who are served by our 40,000 team members across 2,500 sites around the UK and hundreds more worldwide. It is our team members who make these experiences special so our customers want to return time and again.

I would like to personally thank our team members for the tremendous work that they do, every day.

Our simple business philosophy is captured by our Whitbread Way model, which is on page 8. This model can be seen throughout the Group. It is the foundation of our customer-focused balanced scorecard, which we call our WINcard and is used at every one of our sites.

Innovation is a key theme in our business philosophy. It encompasses a wide range of improvements to the customer experience and to business efficiency, from the development of our digital channels in Premier Inn to continuous improvements to Costa's food range.

Winning Teams

We use a six-monthly employee satisfaction survey called Your Say to measure our people's engagement. This year 95%, that's over 36,500 team members, took the time to complete the 28 question survey. They told us that 78% of them are proud to work for the Company and the employee engagement score across the Group was an excellent 77.5%.

Alongside this internal measure, we are also delighted to have received external recognition as a great place to work, ranking tenth in the Sunday Times Best Big Companies to Work For 2013 list and number eight in the Britain's Top Employers survey run by the CRF Institute.

Our profitable growth means we are creating thousands of jobs each year. In 2012/13 we employed an additional 3,000 people (net) in the UK, many of whom were from the long-term unemployed and under the age of 25. We are proud that the jobs we offer provide very real opportunity to people who want to develop their skills and their careers, not just in the UK but on a global stage.



I am pleased that many of our team members are sharing directly in Whitbread's success through the Company's Sharesave scheme. This year saw the highest uptake for seven years with over 3,000 people opening a three or five-year plan. Those who joined the scheme three or five years ago shared in a £2.8 million profit in February.

Customer Heartbeat

We are passionate about putting the customer at the heart of everything we do. We believe that great service, constant innovation and a continued investment in our product is the winning formula for building a stronger Customer Heartbeat and growing ever stronger brands which can consistently outperform the competition. We achieved our highest ever sales, guest satisfaction scores and brand preference in the year.

Across Hotels & Restaurants and Costa we have achieved record net promoter scores, with more customers than ever ranking their experience of a Premier Inn, a restaurant or a Costa, nine or ten out of ten. When it comes to brand preference, both Premier Inn and Costa remain the number one brand of choice in their markets, according to the UK's leading brand survey, YouGov, and both have increased their lead over the competition.

One of the biggest contributing factors to building a stronger Customer Heartbeat, and driving Profitable Growth, is a continued investment in our estate. In Hotels & Restaurants we have invested £103.1 million, a significant amount of which was invested in maintaining and upgrading almost 6,000 rooms, whilst at Costa we have spent £18.2 million on re-imaging 120 stores and maintaining the estate.

Profitable Growth

In 2012/13 Premier Inn continued to win market share through opening 4,242 net new rooms and 29 net new hotels taking the total estate to 51,671 rooms and 649 hotels. This, combined with our committed pipeline of 10,000 rooms puts us on track to reach our growth milestone of 65,000 rooms by 2016.

We have now extended this milestone to 75,000 rooms by 2018. We anticipate around half of this will come from new catchment areas where Premier Inn is not currently present. London remains an important area of focus. We currently have some 6% of the total London hotel market with 8,000 rooms and envisage reaching 13% by 2018, which equates to 20,000 rooms.

We are building the Premier Inn brand in selected international markets, initially building our own hotels and then moving towards an 'asset light' model. We have four hotels in the Middle East and two hotels in India, which are making good progress. We have a committed pipeline of 12 hotels, with plans underway for a further eight in our target market of the Middle East, India and South East Asia.

Costa opened 186 net new stores in the UK during the year, taking the total to 1,578. In addition to growing our store portfolio we also had a highly successful year with the growth of Costa Express which added 1,368 new units, driven by its partnership with Shell which saw the installation of around 700 machines on its forecourts. There are now 2,560 Costa Express machines across the UK.

Costa EMEI and Costa Asia opened 138 new stores including its first stores in France, Cambodia, Thailand and Singapore. China remains an exciting opportunity and we opened 89 net new stores in the year taking the total to 253 in 28 cities, on track to achieve our target of 500 stores by 2016.

We are well on the way towards achieving our growth milestones of 3,500 stores globally, 3,000 Costa Express machines and £1.3 billion of system sales by 2016. We have now extended our Costa growth milestone to around £2 billion of system sales by 2018.

Good Together

Our Good Together programme runs throughout everything we do. Good Together is our corporate social responsibility programme which incorporates three pillars – Team and Community; Customer Wellbeing and Energy and Environment. All three pillars have achieved some great results in the year including raising over £2.3 million for our chosen charities of Great Ormond Street Hospital Children's Charity (GOSHCC) and the Costa Foundation; diverting 93% of Hotels & Restaurants waste from landfill; and the introduction of nutritional information on Costa packaging in store and online. We are proud of the efforts we are making in this area and are working hard to achieve our 2017 targets (which can be found on page 9) to ensure we are a force for good in all the communities in which we operate.

We are taking our responsible sourcing policy to a new level. We have strengthened our testing and traceability regime for processed meat and have implemented the lessons learned from the horse meat contamination issues prevalent in the industry.

This Annual Report

In the following pages we have included much more detail on the work our Winning Teams are doing to build a strong Customer Heartbeat to drive Profitable Growth and create shareholder value. I hope you find this interesting and informative and if you have any questions I would be delighted to hear from you.

Andy Harrison
Chief Executive

29 April 2013

Our business model The Whitbread Way



	Strategy	Measures
Winning Teams	We build highly engaged teams who make everyday experiences special for our millions of customers, by recruiting the best people, investing in training and development, growing talented leaders and recognising and rewarding success.	<ul style="list-style-type: none"> Employee engagement Labour turnover
Customer Heartbeat	We put the customer at the heart of everything we do, investing in our people, as well as developing new products and services to meet and exceed customer expectations, build preference and win market share. We are committed to maintaining the quality of our estate through ongoing refurbishment.	<ul style="list-style-type: none"> Net guest scores Brand preference Like for like sales
Profitable Growth	We create shareholder value by delivering good returns through focused investment in Premier Inn (including our unique joint site restaurant model) and Costa, where we pursue organic growth in domestic and selected international markets. We maximise Group synergies through a focus on delivering a consistently good customer experience in a service and people intensive environment and utilising our central property expertise.	<ul style="list-style-type: none"> Growth milestones Profit Underlying EPS Return on capital
Good Together	We aim to be a force for good in our communities focusing on Teams and Community, Customer Wellbeing and Environment.	<ul style="list-style-type: none"> Five-year targets



Good Together



Targets 2016/17

Teams and Community	Customer Wellbeing	Environment
Job creation <ul style="list-style-type: none">• 10,000 new UK jobs.	Accreditation and sustainable supply of: <ul style="list-style-type: none">• tea/coffee;• timber;• palm oil;• fish;• meat; and• all Costa hot drinks will be Rainforest Alliance certified.	<ul style="list-style-type: none">• 25% carbon reduction¹.• 15% reduction in water consumption¹.• Zero waste to landfill¹.
Charitable activity <ul style="list-style-type: none">• Substantial charitable fundraising by Hotels & Restaurants.• Costa Foundation to educate 50,000 children and build 50+ schools in coffee-growing communities.		
Qualifications and training <ul style="list-style-type: none">• Hotels & Restaurants — 6,000 qualifications (including 1,100 apprenticeships).• Costa — enhanced skills training to 20,000 team members.• Hotels & Restaurants — 1,000 school placements (16 to 18 year olds).	Improve the nutritional content across our food and drink portfolio, enabling customers to make informed choices. As part of this, calorific labelling will be introduced into outlets.	

Activity in the year

Teams and Community	Customer Wellbeing	Environment
<ul style="list-style-type: none">• 3,000 net new UK jobs created.• 415 apprenticeships.• Thousands of team members received training and development and took part in skills programmes.• Over £1.5 million raised for Costa Foundation (11 new schools).• Almost £800,000 raised for Great Ormond Street Hospital Children's Charity.	Customer Wellbeing <ul style="list-style-type: none">• Sustainable sourcing policy re-launched to suppliers.• New Timber Sourcing policy developed.• Nutritional information on Costa packaging in store and online.• Rainforest Alliance 100% accreditations including Tassimo™.	Environment <ul style="list-style-type: none">• Relative to sales, carbon efficiency improved by 3.71% pts year on year. We now stand at a 22.34% reduction in carbon from our 2009 baseline.• Achieved a 12.06% reduction in water usage, relative to sales. We have now reduced water usage by 22.24% from our 2009 baseline and have hit our original target. A new target of a 25% reduction has now been set.• At the end of the financial year, we were diverting 93.06% of Hotels & Restaurants waste and 59.36% of Costa waste from landfill.

¹ From Whitbread direct operations and based on 2009 baselines.

Hotels & Restaurants



Winning Teams	<ul style="list-style-type: none"> We recruit, reward, train and develop our 29,000 team members to build highly engaged teams who deliver great customer service and make everyday experiences special. 	<ul style="list-style-type: none"> We offer jobs with opportunity, and an industry leading apprenticeship programme to grow talented leaders.
Customer Heartbeat	<ul style="list-style-type: none"> With the largest UK hotel network, Premier Inn offers customers the greatest choice. Premier Inn offers a consistently high quality product supported by our unique Good Night Guarantee. Our Dynamic Pricing system means we can offer customers the best value and deliver occupancy targets. We are a leading online retailer – 4 out of every 5 bookings is made at www.premierinn.com. 	<ul style="list-style-type: none"> We build brand awareness and loyalty through targeted marketing and sales. At every Premier Inn we serve great food and drink. We have 372 restaurants next to a Premier Inn. Our Beefeater, Brewers Fayre and Table Table restaurants have distinctive brand propositions and serve great quality value menus appealing to a local customer base and our hotel guests. We continually refurbish our hotel and restaurant estate to maintain quality.
Profitable Growth	<ul style="list-style-type: none"> We invest in high returning, consistently profitable sites and are increasing our share of the UK market with rapid expansion of Premier Inn, especially in London. We are entering into selected international markets with the Premier Inn brand. 	<ul style="list-style-type: none"> We maximise synergies and efficiencies with our joint site restaurants.
Good Together	<ul style="list-style-type: none"> We plan to raise substantial funds for our partner, Great Ormond Street Hospital Children's Charity. We are creating more than 1,000 job opportunities every year with a focus on under 25 year olds and long-term unemployed. 	<ul style="list-style-type: none"> We are committed to sustainable sourcing. We minimise our environmental impact with innovative construction methods and processes.



Key highlights



Winning Teams	Customer Heartbeat	Profitable Growth	Good Together
<p>Key highlights</p> <ul style="list-style-type: none">We achieved our highest ever engagement scores in our Your Say survey.Named 'Employer of the Year' at the Hospitality Guild Apprenticeship Awards.Provided work placement opportunities to young and unemployed people.Launched the industry-leading 'My Rewards' programme in our Restaurants. <p>Facts and figures</p> <p>2,613 Qualifications attained by team members</p> <p>415 Apprenticeships delivered</p> <p>1,100 New jobs created</p>  <p>Our teams pride themselves on giving everyone a warm and friendly welcome.</p>	<p>Key highlights</p> <ul style="list-style-type: none">Premier Inn voted 'Best Leisure Hotel Chain' and 'Best Budget Hotel Brand' at the 2012 British Travel Awards.Best ever levels of customer satisfaction in Premier Inn and Restaurants.Rolled out a new two-tier pricing system in Premier Inn providing value for our customers.Premier Inn is now one of the UK's leading digital retailers. <p>Facts and figures</p> <p>78% Proportion of Premier Inn bookings made online</p> <p>£103.1 million Spent on the maintenance of our estate</p> <p>36 Restaurants refurbished</p>  <p>We welcome over 60 million hotel and restaurant guests every year.</p>	<p>Key highlights</p> <ul style="list-style-type: none">On track to meet 2016 growth milestones, with new milestones announced for 2018.Maintained a good return on capital.Premier Inn and Restaurants both outperformed competitors.Progressed plans to grow Premier Inn in India, the Middle East and South East Asia. <p>Facts and figures</p> <p>4,242 New Premier Inn rooms opened (net)</p> <p>10 New restaurants</p> <p>1.7% Like for like RevPAR growth in Premier Inn</p>  <p>As the UK's largest hotel company you can find us in the best locations in the UK.</p>	<p>Key highlights</p> <ul style="list-style-type: none">Great Ormond Street Hospital Children's Charity chosen by team members as our charity partner.Responsible sourcing policy updated and re-launched.Water consumption reduction target met and new updated target set.On track to meet 2017 carbon reduction target. <p>Facts and figures</p> <p>£800,000 Raised for Great Ormond Street Hospital Children's Charity</p> <p>468 Volunteering hours given</p> <p>93% Waste diverted from landfill</p>  <p>Our teams are passionate about their chosen charity, Great Ormond Street Hospital Children's Charity and working together to reduce waste and energy usage.</p>

 More on p12

 More on p14

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 More on p17

Winning Teams

Across our 655 Premier Inns and 397 restaurants we employ 29,000 people, serving millions of customers every month. Success is all about making everyday experiences feel special for our customers and we rely on our Winning Teams to do just that. That's why it's so vital that our teams are highly engaged and passionate about what they do.

We measure their engagement through our six-monthly Your Say survey and in the most recent survey we achieved our highest ever response rate and engagement scores.

Team engagement survey: Your Say

	Engagement score 2012	Engagement score 2011	Response rate 2012	Response rate 2011
Hotels & Restaurants	75%	72%	96%	87%

Your Say is a tool that lets us know the things that matter most to our teams and we use the results to develop specific action plans. One of the priorities identified is to have better two-way communication and we have taken a number of steps to address this, including new listening forums. These have taken place in over 100 sites enabling team members to have a voice and speak freely with the leaders of the business and to share ideas for improvement.

Leadership

We are focused on building our talent and succession pipeline in all regions and countries where we operate to meet our ambitious growth plans.

We continue to run our very successful two day leadership development programme, designed to accelerate our leaders' understanding of how they can contribute to future success. To date some 450 leaders have benefitted from this intensive focus on their personal development, and this year all 112 Premier Inn senior managers took part in the programme.

We have a number of graduate programmes running within operational teams and functional departments to help bring high calibre and high potential talent into the organisation.

Our focus on building internal leadership and developing 'high potential' individuals has ensured that 71% of management and senior appointments in the year came from internal promotions.

Skills development

Developing the skills and abilities of our teams is core to our strategy, to enable our people to achieve their ambitions, have a good sense of wellbeing at work and deliver great experiences to our millions of customers. In 2012/13 we significantly broadened our approach and are now reaching out into the communities in which we operate, supporting our Good Together goal to be a force for good.

We have hosted and taken part in several industry-led forums, 'Big Conversations in Hospitality', to focus on three areas: youth unemployment; apprenticeships; and work experience. This has resulted in 10,000 pledges from ourselves and other industry employers to offer jobs, experience and apprenticeships to young people.

We secured funding from the Government's Employer Ownership of Skills project to support our own programme, WISE (Whitbread Investing in Skills and Employment), which focuses on a number of initiatives including:

- building links with schools, colleges and universities;
- providing sustainable and inspirational work experience to young people;
- transitioning the unemployed into work; and
- developing a progression of apprenticeships.



Improving everyday

2,600 kitchen managers and general managers attended one of the three skills academies in the year.



Winning Teams continued

Work placements

This year, we have started providing opportunities to young and unemployed people who may struggle to gain experience and access to employment. In total, 220 placements were completed with structured work experience for school students to give them experience working in a highly customer-focused environment.

Apprenticeships

We were proud to win 'Employer of the Year' at the Hospitality Guild Apprenticeship Awards and were commended for an outstanding contribution to raising the profile of apprenticeships and raising skills across our industry.

The number of apprenticeships completed in 2012/13 was 415 and 2,613 qualifications were attained. Since we introduced apprenticeships in 2009, 650 have been completed alongside a total of 6,456 qualifications, which include awards for 'Skills for Life' and functional English and maths.

Creating opportunities

Our ambitious growth plans, both in the UK and internationally, make Whitbread an exciting place to work with plenty of opportunities and we are proud of our ability to develop people and build exciting and diverse careers.

This year we have appointed over 17,000 people into positions across the business including 657 management roles. Out of these over 1,100 were brand new jobs in newly opened sites. We have a target to ensure 50% of new roles go to people not in education, employment or training and have achieved 35% in our new site openings.

Reward and recognition

The 'Guest Promise' rewards scheme, launched in 2011, is making a big difference to our teams and customer service. The scheme provides an incentive for all team members to make everyday experiences special for our customers and is based on achievement of their site's customer Net Promoter Score targets.



Working everyday

Gillian Shepherd and Nisha Jassal both joined the new Premier Inn Westfield, Stratford and were recruited through Jobcentre Plus.

In the year we also launched the 'My Rewards' programme in our Restaurants business and will roll this out in Premier Inn in 2013/14. This industry-leading programme works by using re-loadable, pre-paid VISA debit cards for all reward payments.

We have a strong culture of recognition and celebrating success, which helps create an environment in which people see that their work is valued and are inspired to achieve. This year Restaurants recognised 100 'heroes' in the business. This is a programme which will be run again this year to create even more 'heroes'.

Customer Heartbeat



With 60,000 people sleeping in our hotels a night and our restaurant teams serving 125,000 meals a day, it's all about making these everyday experiences feel special for our customers.

Largest network

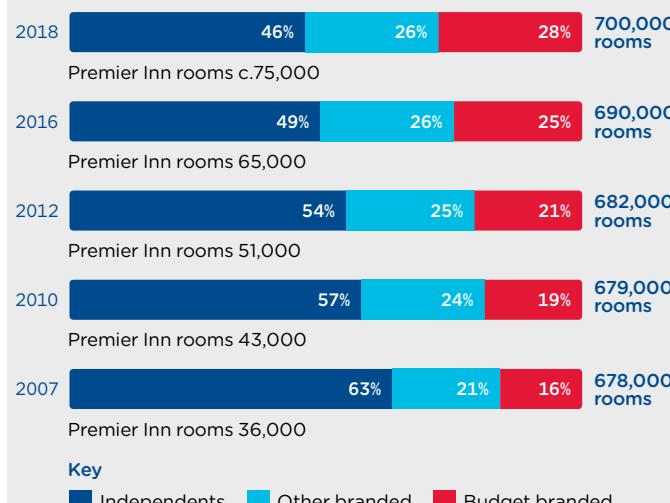
Our large UK network means that we are able to meet the needs of our customers by being located in convenient places. Over the year we have opened 29 hotels, with 4,242 net rooms. Of those, nine hotels were alongside a new joint site restaurant.

A key area for growth is London, where historically we have been under-represented. This year we have added 841 new rooms, which is 12% more capacity within Greater London. We now have hotels in some key locations including Leicester Square and in the City of London at Blackfriars. The Stratford Premier Inn, on the site of the new Westfield shopping centre and overlooking the Olympic Park, opened in time to welcome many thousands of Olympic guests and delegates.

The UK hotel market

While the overall growth of the hotel market in the UK is expected to be slow, the branded budget sector continues to win share from independent operators, which gives us confidence in setting new milestones. We expect the independent market to decline from around 54% to 46% of the total hotel market while the branded budget sector rises from around 21% to 28%.

Structural growth opportunity – c.75,000 rooms by 2018



Our two successful formats, solus and joint site, facilitate growth in both city centres and in the regions, and our freehold/leasehold model provides a full range of property options. Together, they provide us with the flexibility in terms of location and geography to further strengthen our network and continue to win market share.

Quality product, Good Night Guarantee

Something that sets Premier Inn apart from our competitors is the quality of our rooms and hotels. This year we invested £103.1 million in maintenance, a significant part of which was in refurbishing around 6,000 rooms to ensure our hotels are in the best condition.

We are so confident in our product that we guarantee it with our 'Good Night Guarantee'. Any guest who doesn't enjoy a good night's sleep is refunded their full night's stay.

We run one of the largest guest satisfaction surveys in Europe, with 860,000 responses every year. This gives us invaluable insight into what our customers love and what they think we could improve upon. A great example where we have worked hard to improve the customer experience is on the level of noise in our hotels. We've run a number of projects looking at smarter ways to reduce noise.



Ready everyday
Premier Inn prepares 37,000 rooms every day.

Dynamic pricing

Our dynamic pricing model continues to evolve and enables us to manage demand and offer customers the best value. In the year we rolled out our two tier pricing system, Premier Flexible and Premier Saver, which gives customers a greater choice. The price sensitive customer can select a Saver rate, which has more restrictive cancellation terms, whilst the customer who values flexibility can book at the flexible rate, which can be cancelled up until the day of arrival and with a full refund.

We are able to offer great value packages for customers. A good example is our new 'Sleep, Park and Fly' airport package which is available at Gatwick and Heathrow. This enables customers to book for one night and leave their car at the airport for a highly competitive rate.

Customer Heartbeat continued



Happy everyday
Premier Inn has received high guest recommend scores throughout this year.

A leading digital retailer

Premier Inn is now one of the UK's leading digital retailers, with 83% of all our bookings made digitally, up from 76% last year. This has been driven by continued investment in marketing to encourage people to use the website, which has increased visits to 61 million in 2012/13. In March we launched our latest TV advert, with Lenny Henry. This helped drive 'spontaneous awareness' to 71% in October, ahead of all our key competitors, and deliver an increase in web visits of 21%. Our new digital platforms are performing well with 29% of bookings made through mobile devices.

We continue to invest in our digital capability, building a dedicated team and enhanced infrastructure. We are working to improve both our search engine optimisation and the booking flow when a customer makes a reservation online.

Brand awareness and loyalty

Premier Inn has topped the YouGov brand index for a fourth year running, and has been rated No.1 for 'best value hotel' three years running. Popular with leisure and business customers alike, this year Premier Inn was voted the Best Leisure Hotel Chain and Best Budget Hotel Brand at the 2012 British Travel Awards.

Our business customers benefit from our 'Business Account Card', which enables them to control expenses in their organisation, whether they're a company with ten or 10,000 employees. Business Account represents 26% of all Premier Inn revenue and we now have 22,000 accounts. 82% of Business Account holders make the most of our 'meal deals' in the adjoining restaurant.

Building stronger restaurant brands

At every Premier Inn, customers can be sure to get great food and drink and we have 372 joint site restaurants that are next door to the hotel and operate under either the Beefeater Grill, Brewers Fayre, Table Table or Taybarns brand.

In a highly value sensitive market our restaurant brands outperformed the competition and delivered our best ever customer satisfaction scores. This has been achieved by a significant reduction in customers scoring zero to six out of ten and an improvement in customers scoring nine or ten out of ten.

In the year, we completed the rollout of Buffet Place in Brewers Fayre sites, with 17 new Buffet Places opened. £3.6 million has been invested in refurbishing 36 restaurants and we are also continually innovating within our Beefeater Grill and Brewers Fayre brands, with new approaches to design, menus and customer environments.

Customer appeal

We increased the number of people eating in our restaurants by appealing to more and more customers with our great value menus, quality food and outstanding levels of service. We're focused on making our teams really passionate about food, giving them the skills and knowledge they need to be able to 'wow' customers. We continue to develop our menus, introducing new dishes and concepts such as nachos topped with rump steak or paprika chicken and spicy cheese dipping sauce, Sunday Roast with mini joints from our chargrill and a new 'Burgers and Hot Dogs' buffet at Brewers Fayre.



Smile everyday
We achieved 72.8% friendly service score in our Restaurants guest service survey.

Appealing to the local market is key to any restaurant's success and we have focused on making sure each restaurant is actively promoting itself within its community. This entails much more prominent signage outside each site, targeted local promotions such as 'Breakfast with Santa' (which was a big success with families over Christmas) and a major drive to increase breakfast sales, which are up 16.6% year on year.



Profitable Growth



During 2012/13 our Hotels & Restaurants business delivered a solid performance amid a challenging consumer market. Total sales grew by 9.7% and like for like sales by 2.8%. Underlying operating profit rose by 5.9% to £313.1 million and return on capital was maintained at 12.4%.

Our strong cash flow generation allowed us to invest £158.2 million in growing our estate during the year. This, combined with our disciplined approach to deploying capital in both new hotels and restaurants, while maintaining our existing estate, allows us to grow profits and shareholder value year after year.

Growth

During 2012/13 Premier Inn continued to win market share through opening 4,242 net new rooms and 29 hotels (net) taking our total number of rooms to 51,671. Our market share is around 7% of the total hotel market. This, combined with our committed pipeline of 10,000 rooms, puts us on track to reach our 2016 growth milestone of 65,000 rooms. We have now extended this growth milestone to c.75,000 UK Premier Inn rooms by 2018. The London hotel market, where we are under represented, remains a key focus for the Group, representing 40% of our committed pipeline, as we continue to increase the penetration of Premier Inn in the capital. In addition to our Premier Inn expansion, we also added ten new joint site restaurants during the year taking our total number of restaurants to 397.

While it is important that we deliver on our growth milestones, it is equally as important that we deliver a good return on capital. Our continuous focus on improving customer propositions combined with the key levers of dynamic pricing, digital, re-investment in our estate and the strength of our network drove like for like sales growth of 3.1% for Premier Inn during the period. Like for like revenue per available room (RevPAR), which is a key focus for Premier Inn, grew by 1.7% as we continued to outperform the Midscale and Economy sector, winning market share.

Restaurants also delivered a positive performance for the year with like for like sales growth of 2.3%, outperforming the Coffer Peach industry benchmark. The growth in like for like sales has been driven by management actions and a focus on breakfast and coffee sales as well as careful revenue management.

Joint site restaurants

We have a total of 397 restaurants, of which the majority are adjacent to a Premier Inn. The joint site model continues to provide significant benefits to Whitbread through offering a superior customer experience to both our hotel and restaurant guests. This translates into a higher guest recommend score leading to higher RevPAR in the adjacent hotel, delivering a better return on capital.

International

Overseas, our four hotels in the Middle East and two hotels in India made good progress with like for like occupancy rising by 12% pts to 77% and like for like RevPAR growing 20% pts to £33. Our committed pipeline now consists of 12 hotels and eight signed memoranda of understanding as we continue to expand the Premier Inn brand across the Middle East, India and South East Asia, pursuing a more 'asset light' strategy.



Expanding everyday

Whitbread's Hotels & Restaurants network continues to grow with 655 Premier Inns and 397 restaurants.



Good Together



Team and Community

Approach	Aim by 2017	Progress
<p>We will make lives better for our teams and communities through education, employment and opportunity.</p> <p>Programmes</p> <ul style="list-style-type: none"> Charitable giving Job opportunities Career development Team member wellbeing 	<p>Aim by 2017</p> <ul style="list-style-type: none"> Substantial funds raised for charities. 6,000 nationally recognised qualifications for team members (including 1,100 apprenticeships). 5,000 new jobs created (50% of these filled by young and long-term unemployed). 1,000 structured work placements. 5,000 local community hours given. Team member health and wellbeing programme in place. 	<p>Progress</p> <ul style="list-style-type: none"> Almost £800,000 raised for Great Ormond Street Hospital Children's Charity. 2,613 nationally recognised qualifications achieved including 415 apprenticeships completed and 330 team members in learning. Over 1,100 new jobs (many filled by young and long-term unemployed). 220 work placements completed. 468 volunteering hours given. Whitbread was recognised for the fourth consecutive year by 'Business in the Community' with re-accreditation of the 'Skills in the workplace' Award 2012.

Customer Wellbeing

Approach	Aim by 2017	Progress
<p>We will make lives better for our customers by providing goods and services they can trust and helping them make informed choices.</p> <p>Programmes</p> <ul style="list-style-type: none"> Sustainable sourcing Menu development Customer engagement 	<p>Aim by 2017</p> <ul style="list-style-type: none"> Accreditation and sustainable supply of global critical products. Progressive improvement of nutritional content across our food and drink portfolio enabling customers to make informed choices. We will communicate with our customers openly and transparently about our actions, plans and achievements. Guest Recommend Net Promoter scores in line with business average. 	<p>Progress</p> <ul style="list-style-type: none"> Responsible Sourcing Policy published in 2010 — updated and re-launched to suppliers January 2013. High risk products identified and sustainable sourcing process developed. First product specific sustainable sourcing policy developed for timber and timber related products. All fish procured from sustainable sources. All printed materials from FSC accredited sources. All Costa coffee served in our outlets is Rainforest Alliance certified. 88% of procured food meets Department of Health 2012 targets for salt content. Insight on corporate responsibility concerns gathered from over 17,000 customers to inform our programme and customer communication strategy — over 63% of customers rated our corporate responsibility performance as good or very good. Full nutritional information for all menus available on brand websites and calorie information introduced across our Thyme Restaurants.

Environment

Approach	Aim by 2017	Progress
<p>We will make lives better for everyone by reducing our impact on the environment through our carbon, water and waste programmes.</p> <p>Programmes</p> <ul style="list-style-type: none"> Consuming less New build efficiency Influence in supply chain Waste reduction Green travel 	<p>Aim by 2017</p> <ul style="list-style-type: none"> 25% carbon reduction from direct operations (relative to sales against a 2009 baseline). 10% carbon reduction across supply chain activities. 15% water consumption reduction (relative to sales against a 2009 baseline). Zero waste to landfill from direct operations. 10% waste reduction across supply chain activities. 	<p>Progress</p> <ul style="list-style-type: none"> 11.66% less carbon emitted than in 2009 relative to sales. Carbon heat map produced for supply chain and carbon footprint established for the Premier Inn bed. 93.06% of waste now diverted from landfill. Establishing a baseline for product packaging in order to measure performance on waste reduction in the supply chain. 15.62% water consumption reduction relative to sales against our 2009 baseline. This means that the target has been achieved. A new target of a 25% reduction has been set.

Costa



Winning Teams	<ul style="list-style-type: none"> We recruit, reward, train and develop our 13,000 team members to build highly engaged teams who deliver a great coffee experience for our customers. We develop talented leaders and offer jobs with opportunity and exciting international career prospects.
Customer Heartbeat	<ul style="list-style-type: none"> The size of our network and the number of distribution channels mean you are never far from a cup of Costa coffee. We serve the best quality coffee. We constantly develop new food and drink ideas. We design our stores to create a warm and welcoming experience. We use customer insight to build customer satisfaction. We maintain quality through ongoing refurbishment.
Profitable Growth	<ul style="list-style-type: none"> We invest in our stores to strengthen our position as UK market leader and expand in selected international markets where we can build significant presence. We use a number of different ownership models including Costa-owned, franchise and joint ventures. We sell coffee through our wholesale, 'Costa at home' and Costa Express channels.
Good Together	<ul style="list-style-type: none"> We raise money for the Costa Foundation, which builds schools in coffee-growing communities. Our teams take pride in supporting their local communities. We are creating 1,500 new job opportunities every year. All our coffee is 100% Rainforest Alliance accredited and all our products are sustainably, ethically and, wherever possible, locally sourced. We are reducing waste to landfill and our carbon footprint.

Key highlights



Winning Teams	Customer Heartbeat	Profitable Growth	Good Together
<p>Key highlights</p> <ul style="list-style-type: none"> We achieved our highest ever engagement scores in our Your Say survey. New barista induction and skills training programme launched. Significant job creation as we open a new store almost every day across the world. 'Feel Good' incentive scheme launched. 	<p>Key highlights</p> <ul style="list-style-type: none"> Costa recognised as 'The UK's No.1 Coffee Brand' for the third consecutive year. We are making it easier to choose Costa, by growing our store network and selling coffee in new ways. 'Friendliness of staff' is one of the highest scoring areas of customer feedback. The Costa Coffee Club continues to drive loyalty. 	<p>Key highlights</p> <ul style="list-style-type: none"> On track to meet 2016 growth milestone, with new milestone announced for 2018. Improved return on capital. China remains an exciting opportunity for growth. Launched 'Costa at home'. 	<p>Key highlights</p> <ul style="list-style-type: none"> The Costa Foundation registered as a stand-alone charity. All Costa's coffee products are Rainforest Alliance Certified™. All food and beverages have nutritional information available in store, on packs and online. On track to meet 2017 carbon reduction target.
<p>Facts and figures</p> <p>1,800 Attended management development workshops</p> <p>1,600 New jobs created</p> <p>8,400 Team members received 'Feel Good' incentive points</p>	<p>Facts and figures</p> <p>41% Proportion of UK adults who rate Costa as their favourite coffee shop</p> <p>120 Costa-owned UK stores re-imaged in the year</p> <p>2 million Active Costa Coffee Club members</p>	<p>Facts and figures</p> <p>324 New Costa stores opened</p> <p>1,368 New Costa Express machines</p> <p>29 Countries where Costa has a presence</p>	<p>Facts and figures</p> <p>£1.5 million Raised for the Costa Foundation</p> <p>32 Completed Costa Foundation school projects</p> <p>21% Less carbon emitted than in 2009 relative to sales</p>
 <p>It takes a lot of love and skill to make our unique Mocha Italia blend.</p>	 <p>Our baristas are passionate about delivering a great coffee experience.</p>	 <p>The largest coffee shop brand in the UK and second largest in the world means we're all about choice, convenience and great quality coffee.</p>	 <p>The coffee journey starts on farms in coffee-growing communities around the world. The Costa Foundation is there to support their growth by building schools and providing education.</p>

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More on p25



Winning Teams



We believe that if we create a great place to work for our team members this will help us to build Winning Teams to make everyday experiences special for our millions of Costa customers.

Costa uses Whitbread's six-monthly team engagement survey, Your Say, to measure how well we are doing at building a great place to work.

Team engagement survey: Your Say

	Engagement score 2012	Engagement score 2011	Response rate 2012	Response rate 2011
Costa	83%	78%	93%	73%

Your Say

Costa had record Your Say scores this year, with 93% of people completing the survey and an overall engagement score of 83%, up from 78%.

We use Your Say to help us understand how it feels to work at Costa and have a rigorous action planning process at stores and in our support teams to learn from the results and continuously strive to make Costa a better place to work.

Communication is a key area where we know we can improve and our new team member website, Costa Share, provides a great way to share information and news. This year we used Costa Share to ask our team members to vote for their new uniform which proved very popular and highly engaging. We also run regular focus groups at stores and in regions to explore important topics with our teams.

Leadership

At Costa we offer exciting leadership opportunities around the world and are committed to developing talented leaders. We do this in a number of ways. This year we rolled out a nationwide coaching scheme to all store managers and regional development managers to help them to engage and enable their teams better. More than 1,800 barista maestros, assistant managers and store managers have been developed through one of Costa's management development training workshops and 25 store managers have progressed through our high potential development programme, Shining Stars.

Skills development

This year we launched a new barista induction and skills training programme to more than 13,000 team members across Costa Retail and Costa Enterprises to engage, focus and enable our baristas to deliver an unbeatable coffee experience.

The quality of our coffee and expertise of our baristas is vital to Costa's success. This year we focused on further developing the knowledge of our skills trainers in the sensorial analysis of espresso, which has led to their accreditation by the International Institute of Coffee Tasters.

We have given a facelift to our Lambeth Training Academy with new, more advanced equipment and state of the art technology for the students to experience and learn from.

Job opportunities

With our ambitious growth plans, opening a store almost every day around the world, Costa is creating jobs and careers for thousands of people. In the UK, new openings of Costa Retail company-owned stores have created 904 new jobs in 2012/13, whilst our franchise and delivery partners have added many more.



Handmade everyday

Our baristas make an average of more than 850,000 cups of coffee a day.

Winning Teams

continued



Chill everyday
Our new range of iced coffees and lemonades proved popular with customers.

Career progression

Harriet Mason started her career with Costa in August 2001 as a barista. Using her skills and expertise gained through progressing at a store level, Harriet's passion for development led her to being nominated as a high potential store manager and considered for an associate retail development management role. After shining at the assessments, Harriet was one of two appointments made. This allowed her to take the next step in her career and develop as a leader in a multi-site role with responsibility for ten stores in Scotland. Now a retail development manager with responsibility for more than 20 stores, Harriet continues to be an inspiration to her team and peers, constantly stretching herself in her role and looking for the next challenge to strengthen her leadership skills and style even further.



Opportunities to share in Costa's success

Pay for progression

Since implementing pay for progression in our UK Retail stores there has been major shift in the way we reward our baristas after they complete their basic training. We continue to pay above National Minimum Wage and we also offer an incentive scheme called Feel Good that all our baristas can participate in.

Reward and recognition

Feel Good allows baristas to earn points and rewards for delivering great customer service. In 2012/13 we awarded 80 million Feel Good points to more than 8,400 team members and, at present, 70% of our store teams are registered on the scheme. Points are awarded on a quarterly basis against the customer measure, Listen and Learn, and six-monthly against like for like sales. They can then be redeemed online for a wide range of items from musical instruments to experience days.

Other ways in which we reward and recognise our teams include campaign incentives, introduced at the beginning of our summer and Christmas campaigns to improve team engagement, enhance the customer experience and drive sales.

Across all levels of the business, individuals and teams are recognised through the use of 'Grazie' cards, which give a personalised 'thank you' message, and recognition pins in the form of flying coffee beans. Many of these individuals and teams are also celebrated at award events held across the business.

Costa Barista of the Year

Every year Costa baristas from around the world get to showcase their coffee making talents at the Barista of the Year competition. The grand final is a two day competition, testing their technical and coffee knowledge. This year's winner was Victoria Stewart from a Costa store in St Andrews.



Customer Heartbeat

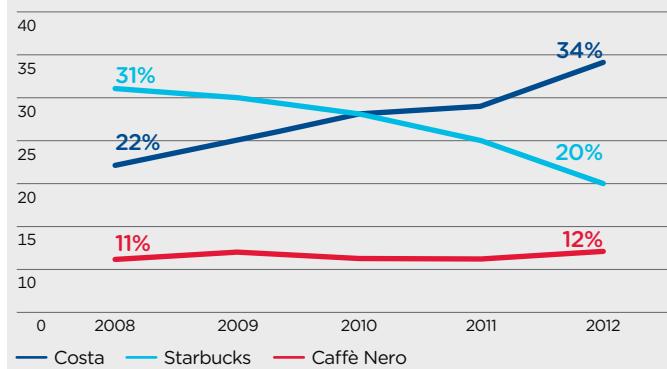
Costa is one of the few brands on the UK high street that is consistently achieving great like for like sales growth and expanding at a rapid pace. We believe this success is thanks to our commitment and focus on always putting the customer at the heart of everything we do.

No.1 UK coffee shop brand

For the third year in a row, Costa has been recognised as the UK's No.1 coffee brand by Allegra Strategies. Their independent survey of over 5,000 adults reported that 41% of the UK population voted Costa as their favourite coffee shop brand, versus 26% for Starbucks.

YouGov's usage and awareness study also showed that Costa was the UK's most popular coffee shop as shown in the graph below.

Growing strong brands



Source: YouGov Annual Study, 2,000 national representative respondents: "If these three brands were next to each other which one would you choose?"

A key factor in helping to drive awareness has been Costa's recent 'Coffee Heads' TV advertising campaign. The advert was launched in October 2012 and has seen a very positive response with first mention awareness up by 5% pts and overall brand warmth up by 2% pts.



Making Costa the easy choice for customers

We place a lot of focus on making it easy to choose Costa by investing in growing our store network and extending the ways we sell coffee to our customers.

In the UK alone, in 2012/13 we opened 186 stores of which 97 were equity and 89 were individual and corporate franchises. We also opened another four drive-thrus, taking the total to nine and we have a solid pipeline for further drive-thrus in 2013/14 and beyond. The drive-thru concept is proving very popular with customers.



Choice everyday

Our drive-thru stores offer customers a new way to get a cup of Costa coffee.

Costa Express has been another highly successful innovation. It offers customers another place to buy their favourite cup of coffee. We have also introduced 'Costa at home', which now enables customers to make a cup of Costa coffee themselves.

Internationally, the Costa brand is in the process of establishing itself within key markets, with China offering the biggest opportunity for growth. In 2012/13 we opened 89 stores in China, bringing our total to over 250 stores in 28 cities. In total we opened 138 stores across Costa EMEI and Costa Asia.

Customer Heartbeat continued



Connecting everyday

Costa's Facebook fans are up 269% and are set to hit one million next year, making it one of the top five largest sites within hospitality.

Best quality coffee

As well as choice, customers are also looking for a great quality cup of coffee and at Costa we are passionate about only serving the very best, hand-made by our specially trained baristas.

Our award-winning roastery in Lambeth roasts 7,500 tonnes of green coffee a year and supplies every Costa store around the globe, with the exception of our stores in India. The Roastery was recently accredited with an ISO 50001 certificate recognising reductions in carbon emissions and is the only roastery in the world to have achieved this accolade.



Taste everyday

Our unique Mocha Italia blend has been roasted in Lambeth for 42 years.

A warm and welcoming store design

We are proud of our store design and ambience. Our baristas do a tremendous job creating a warm and welcoming atmosphere and we put a lot of effort into making sure the design and layout of the stores is equally warm and welcoming.

In 2012/13 we started to roll out our new 'evolution' design across the estate and completed 120 re-images in the year, with an investment of £18.2 million in refurbishment and maintenance. In addition to these refurbishments we have also opened 109 new stores incorporating the 'evolution' design this year.

We are also using the 'evolution' store design for new openings overseas. In China we have opened five 'Metro' stores and nine 'Bake Off' stores, where we are trialling the concept of baristas cooking certain dishes in store to create fresh baked pastries and savoury dishes.

Developing new food and drink products

Over the course of the year Costa has launched a number of new products including Cortado, Caffé Caramella and Chai Latte.

We also introduced a number of new flavours to our Ice Cold Costa range, including three lemonade-based drinks. Supported by strong point of sale advertising, Ice Cold Costa proved popular with UK customers.

In Europe, innovative new products such as the rosemary and kalmata olive bread are selling well, whilst in China western products are the biggest sellers with tiramisu and hazelnut latte cake being the most popular.

Using customer insight to drive customer satisfaction

Our 'Listen and Learn' customer insight programme has been a driving force in Costa's outperformance. Providing real time customer feedback to each UK store inspires our teams to deliver great customer service, linking them directly to what customers are saying about their experience. This provides a snapshot to the team of what is going well and what opportunities they have to delight customers even further. The impact on driving team engagement as well as improving service quality is tremendous.

In 2012/13 Costa achieved an increase in Net Promoter Score, with one of the highest scoring areas being 'friendliness of staff'.

Loyalty card

The Costa Coffee Club continues to go from strength to strength with two million active users of the card. The scheme continues to drive loyalty with the number of visits per quarter up 4% year on year and average transaction value also up 4% year on year. As a result total spend through the Club is up 20% year on year.

During the year we launched the Costa Coffee Club app and integrated it onto Costa's Facebook page, which means members can now check their points balance, manage their card and report it lost or stolen all via Facebook. Our last promotion on the Coffee Card app saw almost 32,000 people log in to their accounts using Facebook across three days in January.



Profitable Growth



Costa produced another outstanding performance during the year, with total sales increasing by 24.1% driven by good like for like growth and a strong store opening programme.

Total system sales, which are sales derived from Costa-owned and franchise stores, were up 22.6% to £1.0 billion. This puts us on track to achieve our 2016 growth milestone of £1.3 billion of system sales. Costa Express had another strong performance with the addition of 1,368 units taking our total number of units to 2,560.

Following a strong top line performance, underlying operating profit increased by 29.3% to £90.1 million. Once again, a disciplined approach to capital deployment combined with strong cash flow generation has increased return on capital by 2.3% pts to 34.7%.

Growth

During 2012/13 we continued to invest in strengthening our position as the UK's leading coffee shop as well as expanding in selected international markets where we can build significant market share. In the UK we opened 186 net new stores taking the total to 1,578 and internationally we opened 138 net new stores taking the total to 949. This takes our total worldwide store numbers to 2,527. We recently announced a new 2018 milestone to get to around £2 billion of system sales.

To facilitate our growth we use a range of ownership models such as equity, franchise and joint ventures which we currently operate in a total of 29 countries across the world. This not only helps us in delivering on our expansion plans, but also helps us to focus on driving like for like growth across our equity estate and joint ventures. During the year we delivered another strong performance, with like for like sales growth of 6.8% across our equity estate in the UK. This is driven by our continuous focus on innovation, investment in the brand and customer propositions.

International

We made good progress during the year, with our franchise business in the Middle East and India continuing to perform well. However, progress in our Eastern and Southern European markets was more difficult due to weak consumer confidence resulting from the ongoing crisis in the Eurozone. China remains an exciting opportunity for Costa where we operate two joint ventures.

During the year we opened 89 new stores in China taking our total number of stores to 253 in 28 cities. This puts us on track to achieve our target of 500 stores by 2016.

Making Costa convenient

In addition to our store portfolio, we provide access to Costa through a number of different channels including Wholesale, Costa Express and 'Costa at home'. Costa Express, which targets the self-serve coffee bar market, had a highly successful year adding 1,368 new units following a successful partnership with Shell for the installation of around 700 units. We ended the year with 2,560 units. Our wholesale business also made good progress and, following the successful launch of our 'Costa at home' range, we continue to make progress in a nascent but fast growing category.

Number of Costa stores worldwide

2012/13	2,527
2011/12	2,203
2010/11	1,871
2009/10	1,600



Convenience everyday
Costa has added 1,368 new Costa Express units to its portfolio.



Good Together



Team and Community

Approach	Aim by 2017	Progress
<p>We will develop our people and support the community.</p> <p>Programmes</p> <ul style="list-style-type: none"> Charitable giving Job and career development Community engagement 	<p>Aim by 2017</p> <ul style="list-style-type: none"> The Costa Foundation will build 50 schools to educate 50,000 children. Provide enhanced skills training to 20,000 team members. Give our team members over 5,000 management progression opportunities. 	<p>Progress</p> <ul style="list-style-type: none"> Costa team members, customers and charitable products helped raise over £1.5 million to the Costa Foundation. 11 school projects were completed in 2012/13. There are now 32 completed projects in six different countries. 17,553 children now have access to education in remote coffee-growing communities around the world. We have delivered programmes of enhanced skills training to a total of 7,762 team members and barista maestros. UK wide management development programmes now have a total of 2,455 graduates over the last two years. 904 new jobs were created by the growth of Costa-owned sites, with many more as a result of our business partners' growth. A UK-based community engagement and support plan has been developed to start during 2013.

Customer Wellbeing

Approach	Aim by 2017	Progress
<p>We will be proud of the provenance of our products.</p> <p>Programmes</p> <ul style="list-style-type: none"> Sustainable sourcing Menu development Customer education 	<p>Aim by 2017</p> <ul style="list-style-type: none"> All our hot drinks will be sustainably sourced and certified. Our products will be locally/ethically sourced wherever possible. We will improve the nutritional value of our products and enable our customers to make a fully informed choice when they visit our stores. 	<p>Progress</p> <ul style="list-style-type: none"> All coffee products in every worldwide market are now 100% Rainforest Alliance. Our everyday tea served in the UK is also Rainforest Alliance Certified™. The 'Costa at home' range of roast and ground and Tassimo™ products, launched in UK supermarkets and department stores, are 100% Rainforest Alliance Certified™. All the meat and poultry in our savoury products and the milk in our drinks come from accredited UK farms producing high quality, high welfare products. All our cardboard food packaging comes from sustainably managed, FSC certified sources. All our food and beverages have nutritional information available in store, on packs and online via our customer calorie counter at www.costanutrition.co.uk.

Environment

Approach	Aim by 2017	Progress
<p>We will achieve the lowest environmental impact we can.</p> <p>Programmes</p> <ul style="list-style-type: none"> Consuming less Waste reduction Influence in partnership 	<p>Aim by 2017</p> <ul style="list-style-type: none"> 25% carbon reduction from direct operations (relative to sales against a 2009 baseline). Zero waste to landfill (from UK Company stores). We will provide clear guidance to our partners to achieve similar results. 	<p>Progress</p> <ul style="list-style-type: none"> Costa has achieved a 21% reduction in carbon emitted since 2009, relative to sales on a like for like basis, representing an improvement of 3% in the year. The Costa Roastery has maintained its ISO 50001 environmental accreditation and further reduced CO₂ emissions per tonne of coffee produced to 32% versus its 2009 base position. 100% of electricity consumed at the Roastery and our Costa Express offices comes from renewable sources. Approximately 20% of Costa-owned stores were served with power from renewable energy sources. Costa-owned stores improved diversion from landfill from 29% pts to 59%.

Key Performance Indicators



Our key performance indicators are based on the strategic framework of the Company — Winning Teams, Customer Heartbeat, Profitable Growth and Good Together. Behind each of these headings are clear and measurable targets which together make up our balanced scorecard or WINcard as we call it (Whitbread In Numbers). It is used throughout the Company. Every hotel, restaurant and coffee shop has its own WINcard. All support centres, each business and the Group as a whole have their own WINcards. Every month the results are published throughout the Group so that everyone knows exactly how they are doing against the key targets for the year.

As these are key strategic measures a number of them form an important part of the incentive schemes for our teams. Details of how the executive directors are rewarded for their WINcard performance are described in the remuneration report on page 57.

The WINcard targets are set at the beginning of each year and agreed with the Remuneration Committee. They are set at or above the level achieved in the previous year to improve performance. In general a green WINcard is achieved where the performance is better than both target and the previous year. An amber score is for performance which is better than the prior year but below target and a red score is for a result below the previous year.

Winning Teams

Team engagement

Engagement measures how our teams feel about working for the Company. We find out by asking everyone in the Company to complete a survey twice a year that asks questions that give us a very clear idea as to how they are feeling at that time.

Team turnover

We measure the percentage of our team members who leave the business during the year. For example, if we had team turnover of 50% that would mean that half had left during the year and had to be replaced.

Why this is important

We want our people to enjoy what they do and to know we will work to improve things if they tell us they are not happy. We also know that the happier our teams feel about their work the better they will serve our customers. We will attract as well as retain great people if we can show high levels of engagement.

Why this is important

We aim to keep turnover as low as possible as this means that we have more settled and consistent teams who will serve their customers better. We also save money on recruitment and training if we can retain team members.

How we have done in 2012/13

Group

77.5%

Hotels & Restaurants

75.4%

Costa

83.4%

How we have done in 2012/13

Group

41.8%

Hotels & Restaurants

43.0%

Costa

38.1%

WINcard results

● Group

● Hotels & Restaurants

● Costa

WINcard results

● Group

● Hotels & Restaurants

● Costa

Our goals for 2013/14

We have very deliberately set high standards for our engagement scores and consistently look to improve on what are strong scores by reference to benchmark results.

- Group 79%
- Hotels & Restaurants 75.7%
- Costa 81%

Our goals for 2013/14

The targets we set for this measure are based on what the business has achieved in the past year and what other companies in our sector achieve. As we have different types of business and support centre employees varying targets are set.



Key Performance Indicators continued



Winning Teams	Customer Heartbeat	Brand performance
Health & Safety Nothing could be more important than the safety of our teams and our customers. Independent audits are carried out throughout the year to check that standards are being maintained with certain key areas resulting in automatic failure if they are not met.	Brand standards Our customers rightly expect a consistently high standard of service and physical surroundings in our sites. We have developed brand standards, which are appropriate to the relevant business and not directly comparable to each other.	Brand performance With our aim to make everyday experiences special it is vital that we have a robust way of measuring how our customers rate our performance in terms of recommendations and preference over other brands.
Why this is important Our people have a right to work in a safe environment and our customers rightly expect us to look after them when they choose to sleep, eat or drink with us. A significant health and safety failure would also affect confidence in our business.	Why this is important We know that our customers have a choice when they are booking a hotel or choosing a restaurant or cup of coffee and that we have to be able to show that we operate at consistently high levels that make them want to choose us.	Why this is important Without this information we would not be able to measure and improve our customers' experience or compare the experience we provide to that provided by our competitors.
How we have done in 2012/13 Hotels & Restaurants and Costa both exceeded the stretching targets that had been set.	How we have done in 2012/13 Premier Inn 73.2% Restaurants 82.1% Costa 91.5%	How we have done in 2012/13 Each of the businesses has developed its own customer measures which track elements particularly relevant to them. Costa had an average brand preference score of 31% during the year beating Starbucks at 23%, Hotels & Restaurants had a net recommend score of 60%. The Group score is a combination of the Costa and Hotels & Restaurants scores.
WINcard results <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa	WINcard results <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa	WINcard results <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa
Our goals for 2013/14 In the interests of improving standards even further we have raised the bar for an individual site to achieve a green score and increased the proportion of sites required to pass the audit for each business to achieve a green score.	Our goals for 2013/14 Costa will keep its target at 90%. For Hotels & Restaurants the brand standards measure has been replaced on the WINcard by a new measure to encourage synergies between the two parts of the business.	Our goals for 2013/14 <ul style="list-style-type: none">• Hotels & Restaurants 62% net recommend score.• Costa 33.6% average brand preference score and ahead of Starbucks.



Key Performance Indicators continued



Profitable Growth

<p>Profit As with all businesses we measure our financial success by the profits we make through our growing brands and operating our businesses efficiently. A budget is agreed with the Board each year which sets a target profit level.</p>	<p>Like for like sales growth We closely follow the sales growth performance of those hotels, restaurants and coffee shops that have been open for more than a year.</p>	<p>Market performance/Growth Our strategy is based on the profitable growth of our brands which we measure in terms of our sales per available room compared to our competitors in hotels and the number of net new stores in Costa.</p>
<p>Why this is important Recognising that our shareholders have a choice in investing their money we need to be able to demonstrate that our businesses can produce sustainable profit growth. This should mean that the underlying value of the Company will increase and dividends can be paid in line with that growth.</p>	<p>Why this is important While we are investing so much in the organic growth of Hotels & Restaurants and Costa we need to keep a close eye on how the mature parts of the business are performing. This enables us to make better investment decisions in terms of our new developments as well as being able to react to shorter-term performance trends.</p>	<p>Why this is important We need to be able to understand how we are performing on a constant basis to show our shareholders how we are performing against the rest of the market and to develop our strategy accordingly.</p>
<p>How we have done in 2012/13 As shown earlier in this report we grew our Group underlying profit before tax by 11.4% last year with Hotels & Restaurants growing its profits by 5.9% and Costa by 29.3%. These were very good results, achieved in a difficult economic environment.</p>	<p>How we have done in 2012/13 The strength of our brands has meant we have beaten our like for like targets across the Company with Group at 3.7%, Hotels & Restaurants at 2.8% and Costa at 6.8%.</p>	<p>How we have done in 2012/13 We had a RevPAR premium of 6.2% against our hotel competitors last year and we opened 324 net new Costa stores worldwide.</p>
<p>WINcard results</p> <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa	<p>WINcard results</p> <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa	<p>WINcard results</p> <ul style="list-style-type: none">● Group● Hotels & Restaurants● Costa
<p>Our goals for 2013/14 Our profit targets are commercially sensitive. They will remain stretching, but achievable.</p>	<p>Our goals for 2013/14 Our like for like sales targets are commercially sensitive but are set in the budget process against a realistic but stretching view of the markets in the coming year.</p>	<p>Our goals for 2013/14 These targets are commercially sensitive but are set in the context of continued brand growth and outperformance.</p>



Key Performance Indicators continued



Profitable Growth

Returns on investment

A crucial factor in measuring our performance is how well we have invested our shareholders' money. We calculate this by dividing the underlying profit of an asset or business by the capital value of the asset it has been invested in.

Why this is important

Our investors want to be able to judge how well we are using their money in comparison to other investments that they could make. We also want to be able to compare the performance of different types of businesses and assets to focus our own plans, and measuring returns helps us to do so.

How we have done in 2012/13

The Group returns grew from 13.6% to 14% last year. Hotels & Restaurants return on capital was maintained at 12.4% and Costa grew returns to 34.7%.

Return on capital is an important indicator and is a key measure for the Company's Long Term Incentive Plan, but is not on the WINcard.

Our goals for 2013/14

We want to make more profit from an investment than it costs to raise the money to pay for it whether it has been borrowed, invested as equity or paid as rent.

Good Together

Carbon consumption/Waste to landfill

Our corporate responsibility programme covers a number of areas against which we measure ourselves. Hotels & Restaurants has a carbon reduction target and Costa has a target to reduce waste to landfill.

Why this is important

Companies have a responsibility to reduce their impact on the environment which we fully endorse. There are also clear economic benefits in reducing carbon consumption primarily through reduced energy bills.

How we have done in 2012/13

We remain on track for our Group target of reducing our relative carbon use by 25% by 2017. The colder weather this year made this harder to achieve. Costa now diverts 59% of its waste from landfill.

WINcard results

- Group
- Hotels & Restaurants
- Costa

Our goals for 2013/14

25% reduction in carbon emissions by 2017 with annual targets of a 3% reduction in like for like carbon consumption. Costa's target is to reach 64% of waste diverted from landfill next year.



Serving everyday
Total covers in our restaurants were up by 5.4% this year.

Finance Director's review



Nicholas Cadbury
Finance Director

Whitbread has delivered another strong financial performance, with revenue for the year at £2,030.0 million up by 14.2% on last year, underlying profits before tax up 11.4% to £356.5 million and operating cash flow before pension payments up 10.0% to £526.0 million.

Hotels & Restaurants

Revenue rose to £1,360.1 million, up 9.7%, with Premier Inn growing by 13.1% to £853.8 million and Restaurants by 4.5% to £506.3 million. Premier Inn and Restaurants both benefitted from new openings with 4,242 net additional Premier Inn rooms and ten new restaurants on joint sites. Although Premier Inn International did not open any new rooms in the year, it benefitted from a full year of sales on the 375 net rooms opened in the previous year.

Like for like sales growth for UK Hotels and Restaurants was 2.8%, with Premier Inn at 3.1%. This growth was driven by maintaining the quality of the rooms, with 5,979 rooms refurbished in the year, investment in our online distribution and the continued development of dynamic pricing. This enabled us to outperform our Midscale and Economy sector competitors, with RevPAR growth of 1.7%.

Restaurants like for like sales grew 2.3%, led by improvements to our menu offering and the growing customer base staying at the adjacent hotels. Through our continued focus on the customer and by delivering value for money, the number of like for like covers increased 3.0% compared to last year.

Costa

Costa's revenue increased to £672.4 million up by 24.1% on last year. Costa opened 324 net new coffee shops in the year, with a net 186 in the UK and net 138 in overseas markets. Like for like sales in the UK grew 6.8% as we benefitted from the innovation in new food and beverage ranges and the growing customer preference for the Costa brand. Costa Enterprises also grew strongly with 1,368 net new Costa Express coffee machines taking the total to 2,560.

Revenue by business segment

	2012/13 £m	2011/12 £m	Change %
Hotels & Restaurants	1,360.1	1,239.3	9.7
Costa	672.4	541.9	24.1
Less: inter-segment	(2.5)	(3.2)	
Revenue	2,030.0	1,778.0	14.1

Profits

Whitbread's underlying profit before tax at £356.5 million was up by 11.4% on last year. Underlying profit before tax excludes the pension interest charge, the amortisation of acquired intangibles and exceptional items.

Both business segments increased underlying operating profit with Costa up 29.3% to £90.1 million and Hotels and Restaurants up 5.9% to £313.1 million maintaining the Group's strong performance over the last five years.

Hotels and Restaurants profit in the UK was up 6.3% to £319.2 million. Profit growth was lower than sales growth of 9.7%, predominantly due to the higher rent costs as we increase the mix of leasehold properties. Rent costs increased to £69.5 million, up 26% on last year which was approximately in line with sales growth from leasehold properties. International hotel losses were £6.1 million, with the continued planned investment in establishing our South East Asia operations and preparing our Middle East business for further expansion. This was partially offset by an improvement in our trading results, particularly in the Middle East.

Costa's strong performance was led by the UK where profits increased 34.7% to £87.7 million with good growth in both UK Retail and Enterprises. Costa's international profits reduced to £2.4 million from £4.6 million as we invested in our future growth. We experienced good profit progression in the Middle East and from our European franchises. In China, where we increased investment in our infrastructure, we expect to achieve profitability on a monthly basis in the first half of the year. The adverse economic environment in Poland resulted in a like for like sales decline, reducing our profitability year on year. We expect the Polish market to remain tough over the next year and we will be affected by a recent increase in VAT rates on milk based drinks that will raise the VAT charge by roughly £2 million.

Central costs were £23.1 million, up £3.2 million on last year, principally arising from increased share based payment costs, a significant part of which was attributable to the strong performance of the share price during the year.

Total profit for the year after tax and exceptional items was £301.3 million, up 13.3% on last year.

Finance Director's review continued



Growing everyday
Profits across the Group have increased by 11.4% this year.

Interest

The underlying interest charge for the year was £23.6 million, a reduction of £1.7 million compared to last year. This resulted from the decrease in the level of fixed interest rate debt following the maturity of a number of fixed rate swaps, which lowered the underlying effective interest rate to 4.8% from 5.7%.

The total pre-exceptional interest cost amounted to £41.6 million and included the IAS 19 pension charge of £18.0 million (2011/12: £14.0 million). This charge represents the difference between the expected return on scheme assets and the interest cost of the scheme liabilities. In 2013/14 this charge is expected to increase to approximately £26.0 million following the changes to IAS 19 (2011) that limit the expected return on investments that are applied to the scheme's assets to the same rate as that applied to the scheme's liabilities.

Exceptional items

Exceptional items for the year amounted to a benefit of £52.1 million. Full details are set out in Note 5 to the financial statements.

There are three significant items. The first, a £15.3 million profit on the sale of property, investments and businesses, predominantly relates to the sale and leaseback transaction undertaken in December 2012, which gave rise to a profit on disposal of £19.7 million. This transaction is a useful reminder of the value created from our freehold developments and the strong asset backing within Whitbread's balance sheet. The second item relates to the refund of tax and release of accruals, which had been charged in previous periods, of £13.5 million and the related interest of £10.8 million. The third major exceptional item is the release of £16.8 million of deferred tax liability, predominantly due to the reduction in corporation tax rates to 23% following the enactment of the Finance Act 2012.

Taxation

Underlying tax for the year amounts to £91.5 million at an effective tax rate of 25.7%, which compares to 26.4% last year. The major reason for the change in tax rate is the reduction in corporation tax rates for 2013, partly offset by increased overseas tax losses for which the Group has recognised no tax benefit.

Earnings per share

Underlying basic earnings per share for the year is 150.45p up 12.0% on last year and underlying diluted earnings per share for the year is 149.19p up 11.3% on last year.

Further details can be found in Note 7.

Dividend

The recommended final dividend is 37.90p representing an increase on last year of 12.3% making a total dividend for the year of 57.40p up 12.0% on last year, in line with the Group's basic earnings per share growth.

Net debt and free cash flow

The principal movements in net debt are as follows:

	2012/13 £m	2011/12 £m
Cash flow from operations ¹	526.0	478.3
Capital expenditure	(343.6)	(307.9)
Overseas investment and acquisition	(4.8)	(1.6)
Disposal proceeds	51.0	58.7
Interest	(26.2)	(26.8)
Tax	(46.7)	(31.3)
Pensions	(45.7)	(95.4)
Dividends	(77.8)	(87.0)
Other	1.0	(3.4)
Net cash flow	33.2	(16.4)
Net debt brought forward	(504.3)	(487.9)
Net debt carried forward	(471.1)	(504.3)

¹ This agrees to cash generated from operations in the financial statements adding back the pension payments.

Cash generated from operations before pension payments increased by 10.0% to £526.0 million. This strong cash flow is enabling Whitbread to fund its growth from internal resources. Investment in capital expenditure was up £35.7 million on last year to £343.6 million, ensuring that the Group continued to grow its market share through new site developments and investments whilst improving its existing property estate. In addition, contributions to capital and loans to joint ventures increased by £3.2 million to £4.8 million.

As mentioned above, during the year the Group successfully completed a sale and leaseback transaction of seven sites with proceeds of £51.0 million in cash. The transaction provided funds, alongside the operating cash flow, to support the investment of £134.0 million in new freehold properties in the year.

The payment into the pension fund was £45.7 million, a reduction of £49.7 million on last year, following the decision made in 2011/12 to make a one off advanced payment of £25 million. In 2013/14 the pension deficit payments will revert back to the original 2011 triennial scheduled payments of £55 million together with c.£9 million contribution from the properties held as security in favour of the pension scheme.

Finance Director's review continued

Dividend payments amounted to £77.8 million. In the year there was a significantly higher take up of the scrip dividend than last year at 17.7%. The gross dividend payment without the scrip dividend would have been £94.5 million.

Our underlying effective profit and loss corporation tax rate was 25.7% for the year. On a cash basis, the Group benefitted from a refund of approximately £18.4 million in the year relating to overpayments of taxes in previous years and from the timing of scheduled tax payments, as we anticipate that in the first half of next year we will pay approximately £38 million in respect of this year to HMRC. It is not expected that material refunds will be received in 2013/14.

As a result of the free cash inflow the net debt as at 28 February 2013 reduced by £33.2 million to £471.1 million (2011/12: £504.3 million).

Capital expenditure

The Group's cash capital expenditure was £343.6 million, with £261.3 million in Hotels & Restaurants and £80.1 million in Costa. Capital expenditure is split between expansionary expenditure (which includes the acquisition and development of properties) and maintenance expenditure.

Expansionary expenditure increased by £24.1 million to £220.1 million. Of this, £158.2 million related to Hotels & Restaurants, supporting the 4,272 gross new room openings and the ten new restaurants in the year. As mentioned earlier, this included an investment of £134.0 million in freehold property.



Value everyday

Underlying basic earnings per share increased this year to 150.45p, up 12%.

Freehold properties are Whitbread's preferred route to market, where possible, for Hotels and Restaurants. They provide operational flexibility to develop the property to specific requirements and give financial benefits in retaining more of the value created from the hotel's performance, avoiding inflationary rent and capturing development gains. They also offer a choice on how to fund the future growth, by capitalising on these development profits through the option of sale and leasebacks where the proceeds can be recycled back into new freehold properties.

Costa spent £61.9 million on the opening of its 404 gross new coffee shops.

Maintenance capital was £123.5 million. A significant amount of this was spent on ensuring our products continue to meet customers' expectations and stay ahead of the competition. To that effect £103.1 million was spent on maintenance in Hotels & Restaurants and £18.2 million in Costa, a considerable amount of which supported the 5,979 rooms and 120 coffee shops refurbished in the year.

Our current plans for 2013/14 indicate that the Group's capital expenditure will be approximately £350 million. This is particularly sensitive to the timing of transactions and opportunities that arise within the freehold market.

Pensions

As at 28 February 2013 there was an IAS 19 pension deficit of £541.7 million, a reduction of £57.0 million year on year. The main reasons for the reduction in the deficit were the increase in the value of assets under investment and the cash contributions of £45.7 million from the Company which were only partially offset by increased liabilities due to the higher inflation rate assumption.

In the year, the triennial pension agreement between the Company and the Pension Trustee for the year ended 31 March 2011 was completed. Under the agreement there were no significant amendments to the Company's cash contributions to the scheme as agreed under the 2008 agreement. As part of the agreement, further security in the form of a charge over properties with a market value totalling £180 million was agreed to be given in favour of the pension scheme. This takes the total value of property security in favour of the scheme to £408 million.

From next year there are two changes to pension accounting standards that affect the Group's accounts. Firstly, the changes under IAS 19 (2011), as mentioned in the Interest section above, will increase the pension finance charge from £18 million to approximately £26 million. Secondly, certain pension administration costs of c.£2.8 million will be reported through operating profit rather than as part of the pension finance income.

Finance Director's review continued



Delivered everyday
We have delivered an increased return on capital of 14%.

Funding and financial status

Whitbread aims to maintain its financial position and capital structure consistent with retaining its investment grade status. To this end, we work within the financial framework of net debt to EBITDA (pension and lease adjusted) of less than 3.5 times.

The Group remains well funded with a broad source of funds and a good spread of maturity dates. The principal sources of funds are:

- the Group's strong cash flow from operations, which it uses as its primary source of funds for capital expenditure to achieve growth milestones;
- Whitbread also enters into leasehold agreements to fund its expansion. Although the Group prefers the benefits that freehold properties provide to its hotel business, leasehold agreements are less capital intensive and allow us to gain distribution in locations where freehold acquisitions may not be available, such as in many city centres and in particular in London. Leases are also more suitable to the Costa business model where short leases allow flexibility in reacting to the changing dynamics of the high street. At the year-end, with the growth in Costa Retail and the mix of leasehold hotel rooms increasing 5% pts to 31% of the estate, the undiscounted lease commitment for the Group as at 28 February 2013 was £2,460.5 million (2011/12: £1,987.2 million);
- sale and leaseback transactions are used to release capital, allowing Whitbread to crystallise profit on property investments and recycle the proceeds into new freehold property; and
- the Group has funded its medium term requirements through £258.2 million of US Private Placements maturing between 2017 and 2022, together with a £650.0 million bank revolving credit facility maturing in December 2016.

Return on capital

A prime focus for the Group is return on capital. The Group calculates return on capital by dividing underlying profit before interest and tax for the year by net assets at the balance sheet date adding back debt, taxation liabilities and the pension deficit. In the year, return on capital increased by 0.4% pts to 14.0%.

The improvement was a result of Costa's strong trading resulting in a return on capital improvement of 2.3% pts to 34.7% and its increased proportion of the Group.

Within Hotels & Restaurants, where strong returns were maintained at 12.4%, there was progress on the underlying trading returns and there was a benefit from the higher proportion of leasehold properties. This progress was offset by the investments we made in the Hotels & Restaurants fast growing digital channels, the Restaurants management team and the infrastructure of the international hotels.

Nicholas Cadbury
Finance Director

29 April 2013

Risk management

The starting point for the assessment of risks at Whitbread is the Company's business model. Risks are linked to each component of the business model as shown below.



Risks linked to strategy	
Winning Teams	<ul style="list-style-type: none"> Health and safety risks
Customer Heartbeat	<ul style="list-style-type: none"> Reputational risk Market risk
Profitable Growth	<ul style="list-style-type: none"> Financial risk Third-party risk Operational risk
Good Together	<ul style="list-style-type: none"> Food provenance

Structure

The structure of the risk management process at Whitbread is shown in the diagram on page 35. Both Whitbread Hotels & Restaurants and Costa maintain risk matrices aligned to their own business model. These matrices analyse the risks to the achievement of each business's strategic goals and prioritise those risks as low, medium or high based on both the likelihood and potential impact of each risk. The matrices, together with controls and mitigating actions, are reviewed on a regular basis by the management board of each business.

The outputs of the process carried out by the businesses form the basis of the risk matrix for the Group. The most significant business-level risks are included in the Group risk matrix, together with other risks that are specific to the Group. The Group risk matrix is reviewed on a quarterly basis by the Board and annually by the Audit Committee.

The process:

- links risks to the Group's business model and strategic objectives;
- analyses risks based on likelihood and potential impact;
- outlines key controls and mitigating actions; and
- ensures that risks and controls are reviewed quarterly and updated as necessary.

The risk and control matrices form the basis of the annual assurance plan, which provides for the independent testing of controls and mitigating actions by Ernst & Young, NSF (an independent health and safety auditing company), the Company's internal control evaluation process or PwC as part of the operational audit programme.

Risk management continued

The current status

In total, there were 21 risks (2012: 18 risks) identified on the Group risk matrix considered by the Audit Committee in March 2013. After taking account of the controls and mitigation plans the Audit Committee and the Board considered that 15 of the risks either had a low likelihood of occurring or a low potential impact. For this reason, these 15 risks have not been categorised as principal risks for the purposes of this Report.

The six principal risks identified, together with details of controls, mitigation and assurance plans are summarised on pages 36 and 37. Two of these risks are considered to have a high likelihood of occurring. The first is the risk of a serious food provenance issue, which has increased during the year due to the Europe-wide problems with the processed meat supply chain. This issue has been given significant focus and we have strengthened our testing and traceability regime as a result. The other risk deemed to have a high likelihood is the loss of key employees who have been targeted by recruitment consultants. We have taken action to ensure that our key employees understand the benefits of staying with the Company, both in terms of development opportunities and long-term remuneration benefits.



Safe everyday
Nothing could be more important than the safety of our teams and customers.

Whitbread's risk management structure

Whitbread Group risk matrix

Reviewed quarterly by the Executive Committee and the Whitbread PLC Board
and annually by the Audit Committee

Whitbread Hotels & Restaurants risk matrix

Reviewed quarterly by the Whitbread Hotels & Restaurants Management Board

Costa risk matrix

Reviewed quarterly by the Costa Management Board

Operational audit and internal controls evaluation

Scope agreed by Audit Committee to address key risks identified and carried out by PwC and management
Reviewed regularly by the Audit Committee



Risk management continued

Principal risks

Risk	Mitigation controls	Monitoring and assurance	Current trend
Health and safety risk: serious health or provenance issue relating to food.	<p>The expertise of members of the procurement, food development and safety and security teams.</p> <p>Stringent food safety policies and a detailed sourcing policy.</p> <p>New traceability and testing requirements introduced in respect of processed meat.</p> <p>Focus now on predicting other potential issues in the supply chain.</p>	<p>NSF, an independent company, carries out regular audits on all suppliers to measure their performance against a range of health and safety standards. Health and safety is a hurdle on the WINcard. Regular updates are provided to the management boards and to the Board.</p>	Stable
Market risk: improvement in competitor financial health and/or competitor activity can result in a loss of market share.	<p>Actions to outperform the competition are developed on a strategic and tactical basis. Significant customer research is carried out with Premier Inn, for example, receiving more than 800,000 responses in 2012/13. The customer insight received is used to develop action plans. Consumer trends, both in the UK and overseas, are analysed and competitor activity is monitored. Monthly reports are produced by each business for the Board.</p>	<p>Relative market share information and timely trading performance data is produced and monitored by the executive teams and the Board.</p>	<p>Premier Inn Stable</p> <p>Restaurants Stable</p> <p>Costa Improving</p>
Financial risk: significant increase in the pension scheme's actuarial and/or statutory deficit resulting in higher pension contributions or the re-rating of the Company's credit.	<p>The Company's defined benefit pension scheme is closed to new members and, for future service, to existing members. The Pension Investment Committee and its advisers, as well as the internal pensions team, have significant expertise in the area and provide good quality oversight. The investment strategy has been designed to reduce volatility and risk and hedging opportunities are utilised as appropriate. The Finance Director attends Pension Investment Committee meetings.</p>	<p>The Pensions Director and the external pensions advisers to the Company report regularly to the Board on the funding level and investment strategy of the fund.</p>	Stable

Risk management continued

Risk	Mitigation controls	Monitoring and assurance	Current trend
Third-party risk: third-party failing and consequently breaching the terms of a significant contract or giving rise to a priority of contract claim.	Credit control checks are carried out on parties to significant contracts, along with the continued auditing and monitoring of those contracts. Regular reviews are carried out on the potential for priority of contract claims and, when they are received, all efforts are made to lessen the financial liability through negotiation with the landlord or sale of the lease.	Asset management team and credit controllers monitor risks. There is a regular review of the debtors' registers by the management boards. Financial controllers review status at half and full-year.	Stable
Operational risk: loss of key employees.	It is important that the Company continues to offer key employees appropriate levels of reward and recognition in order to retain them. The Company's programme of development and talent planning delivers a strong succession plan.	The Group HR function monitors the number of key employees leaving the Company and conducts exit interviews to understand the reasons. Succession plans are reviewed regularly.	Stable
Operational risk: data security breach resulting in the loss, or improper access to, customer or confidential data.	The expertise of the IS team in protecting the systems and network. IS security training has been delivered to employees. Legal advisers monitor new legislation and advise the IS team.	Systems are continually monitored for irregular activity. The disaster recovery plans are reviewed by the Audit Committee.	Stable



Quality everyday
We have stringent food safety policies and a detailed sourcing policy, which give us confidence in the quality of our products.



Corporate governance

Introduction from Anthony Habgood, Chairman

Corporate governance is something that touches all aspects of our business and affects all of our employees in many different ways. Whitbread is committed to maintaining high standards in this area to ensure that the Company is managed with integrity and transparency.

Although corporate governance flows through all of our operations, the Board takes responsibility for leading on high standards of accountability and ethical behaviour. The 2010 UK Corporate Governance Code ('the Code') was applicable in 2012/13 and is the standard against which we measured ourselves. In order to ensure our compliance we undertook a thorough review of our arrangements including our:

- overall compliance with the 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. We are pleased to report that the Company complied with all the provisions of the Code throughout the financial year.

The 2012 Corporate Governance Code ('the 2012 Code') will apply to the Company in 2013/14, but we have decided to adopt some of the new principles and provisions early to ensure that we maintain our high standards. These changes are reflected in the reports of the Audit and Nomination committees which can be found on pages 47 and 48.

During the year, other key activities have included:

- an internal evaluation of the Board;
- a talent review and succession plan for key executive roles; and
- the appointment of two new executive directors.

Diversity and equality have always been core values at Whitbread. The Board believes that diversity is highly important, not only for board effectiveness but for the effectiveness of the Company as a whole. Whitbread appoints members of the Board on the basis of qualification and merit and does not discriminate on any grounds. We are committed to an active policy of equal opportunities and embrace diversity at all levels.

Details of how Whitbread has applied the main and supporting principles of the Code with regard to remuneration can be found in the remuneration report on pages 49 to 63. Details of the membership and activities of the Remuneration Committee can be found on page 52.

Maintaining high standards of corporate governance is key to supporting our financial performance and protecting your Company. Simon Barratt, our General Counsel and Company Secretary, provides further details in the pages ahead on how Whitbread complied this year in the following areas:

- the Board;
- shareholder relations;
- internal control; and
- Board committees.

Corporate governance is an area that continues to change and develop. Next year we will be reviewing the way in which the Audit Committee reports to the Board on how it has carried out its responsibilities and developing the new form of remuneration report.

We keep all developments under review and will always aim for a level of governance that is appropriate and relevant to the Company.

Anthony Habgood
Chairman

29 April 2013

Corporate governance continued

The Board

Who is on the Board of Directors?

There are 13 members of the Board including the Chairman, Chief Executive and Senior Independent Director.

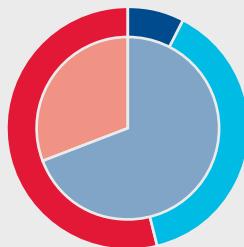
Two new directors have been appointed during the course of the year. In November 2012, Nicholas Cadbury was appointed to the Board as the new Group Finance Director and Louise Smalley joined the Board as Group Human Resources Director. While each of Nicholas and Louise have expertise within their function, they also use their experience to contribute to wider debates at Board level including on operational matters.

As you can see below, 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, which contributes to a positive culture of mutual respect and constructive challenge.

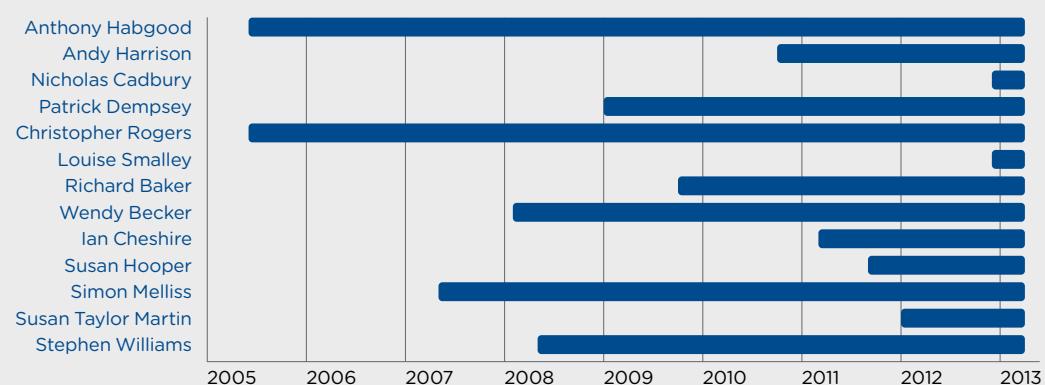
Biographical details of each of the directors can be found on pages 40 and 41.

Composition of the Board

- Chairman: 1
- Executive directors: 5
- Independent non-executive directors: 7
- Male: 9
- Female: 4



Length of tenure of directors



Board agenda 2012/13

During the year the Board considered the following matters:

Standing agenda items

- Chief Executive's report
- Finance Director's report
- Health and safety report (quarterly)
- Internal controls (quarterly)
- Secretariat report
- Approval of major capital projects

Q1

- Approval of Annual Report and Accounts
- Approval of year-end announcement
- Costa EMEI update
- Talent review
- Dynamic pricing strategy
- Whitbread Hotels & Restaurants update
- Good Together targets

Q2

- Premier Inn International update
- Pensions update
- Capital investment review
- Costa Retail update
- Dynamic pricing update

Q3

- Olympics operational review
- Good Together activity
- Interim results
- Premier Inn International projects
- Costa Asia update

Q4

- Whitbread Hotels & Restaurants update
- Pensions – auto enrolment
- 2013/14 budget
- Costa Retail update
- Corporate governance review
- Processed meat/health and safety review

Board experience

	Number of directors		Number of directors
Retail sector	5	International	11
Travel and hospitality sector	5	Commercial property	2
Marketing	3	Technology	2
Legal	1	Human Resources	2
Financial	6		

Board of Directors



Anthony Habgood
Chairman
(since August 2005)

Date of appointment to the Board:
May 2005

Age: 66

Experience:

Between 1991 and 2009 Anthony served first as Chief Executive and then as Chairman of Bunzl plc. Prior to that he had served as Chief Executive of Tootal Group plc and as a director of the Boston Consulting Group Inc. In addition, Anthony has held the role of Chairman of Mölnlycke Healthcare (UK) Limited and non-executive directorships at Geest plc, Marks and Spencer Group plc, National Westminster Bank Plc, SVG Capital plc and Powergen plc.

External appointments:

- Reed Elsevier plc and NV (Chairman)
- Preqlin Holding Limited (Chairman)
- Norwich Research Park (Chairman)

Committee membership:

- Nomination Committee (Chairman)
- Remuneration Committee



Andy Harrison
Chief Executive
Date of appointment to the Board:
September 2010

Age: 55

Experience:

Andy served as Chief Executive of easyJet plc from 2005 to 2010 and was Chief Executive of RAC plc (previously Lex Services plc) from 1996 to 2005. Prior to this, he held the roles of Managing Director of Courtaulds International Fabrics and Finance Director of Courtaulds Textiles plc. Andy has also held a non-executive directorship at Emap plc, where he was Chairman of the Audit Committee.



Stephen Williams
Senior Independent Director

Date of appointment to the Board:
April 2008

Age: 65

Experience:

Stephen retired as General Counsel and Chief Legal Officer of Unilever during 2010, having originally joined them in 1986. Prior to that, Stephen spent 11 years at Imperial Chemical Industries plc. From 1995 to 2004 he was a non-executive director of Bunzl plc and from 2004 to 2010 he was Senior Independent Director of Arriva plc. He joined the Board of Croda International Plc in 2010 as a non-executive director.

External appointments:

- Croda International Plc (Non-executive director)
- Eversheds LLP (Non-executive director)
- Moorfields Eye Hospital NHS Trust (Trustee)

Committee membership:

- Remuneration Committee
- Nomination Committee



Susan Hooper
Independent non-executive director

Date of appointment to the Board:
September 2011

Age: 53

Experience:

Susan was Senior VP, EMEA at Royal Caribbean Cruises International, where she also represented them on the Board of First Choice Holidays PLC. Prior to that she worked at Pepsico International for nine years, living and working in several central European countries. Susan has previously served as a non-executive director of Transcom, Royal & Sun Alliance and Courtaulds Textiles.

External appointments:

- Acromas Travel (Chief Executive)

Committee membership:

- Audit Committee



Richard Baker
Independent non-executive director

Date of appointment to the Board:
September 2009

Age: 50

Experience:

Richard is Chairman of Virgin Active Group and DFS Furniture Holdings Plc as well as Chairman of the European Advisory Board of Aimia. Richard previously served as Chief Executive of Alliance Boots Group plc and Chief Operating Officer at Asda Group plc.

External appointments:

- Virgin Active Group Limited (Non-executive Chairman)
- European Advisory Board, Aimia (Chairman)
- DFS Furniture Holdings Plc (Non-executive Chairman)
- Advent International Plc (Operating Partner)

Committee membership:

- Audit Committee
- Remuneration Committee



Wendy Becker
Independent non-executive director

Date of appointment to the Board:
January 2008

Age: 47

Experience:

Wendy is the Chief Operating Officer of Jack Wills Limited. Previously, she was Group Chief Marketing Officer for Vodafone, Managing Director of TalkTalk and a partner at McKinsey & Company.

External appointments:

- Jack Wills Limited (Chief Operating Officer)
- Cancer Research (Trustee)
- Princes Trust Council (Trustee)
- English National Ballet (Trustee)

Committee membership:

- Audit Committee
- Remuneration Committee



Christopher Rogers
Managing Director
Costa Coffee
Date of appointment to the Board:
May 2005
Age: 53

Experience:
Christopher joined Whitbread over eight years ago as Group Finance Director, a role he held until November 2012. He was appointed Managing Director of Costa Coffee in July 2012. Christopher previously worked at Woolworths Group plc where he was Finance Director and also held the position of Chairman of the Woolworths Group Entertainment business. He originally qualified as an accountant with Price Waterhouse before joining Kingfisher plc in 1988. Christopher held a number of roles in his time at Kingfisher, including Group Financial Controller, Finance Director and Commercial Director of Comet Group plc.



Nicholas Cadbury
Group Finance Director
Date of appointment to the Board:
November 2012
Age: 47

Experience:
Nicholas joined Whitbread in November 2012 as Group Finance Director. He previously worked at Dixons Retail PLC, in a variety of management roles, including Chief Financial Officer from 2008–2011. Nicholas also held the position of Chief Financial Officer of Premier Farnell PLC, which he joined in 2011. Nicholas originally qualified as an accountant with Price Waterhouse.



Louise Smalley
Group HR Director
Date of appointment to the Board:
November 2012
Age: 45

Experience:
Louise joined Whitbread in 1995 and has held the position as Group Human Resources Director since 2007. During her time at Whitbread Louise has held a variety of HR roles across the Whitbread businesses, including HR Director of David Lloyd Leisure and Whitbread Hotels & Restaurants. She previously worked in the oil industry, with BP and Esso Petroleum.

External appointments:

- People 1st (Trustee)



Patrick Dempsey OBE
Managing Director
Whitbread Hotels & Restaurants
Date of appointment to the Board:
January 2009
Age: 54

Experience:
Patrick joined Whitbread in 2004 as Managing Director of Marriott in the UK, and has worked in the hotel and restaurant business for 30 years. He was with Forte Hotels for 20 years, prior to joining Compass Group as Chief Executive of Restaurant Associates. In 2005, Patrick became Managing Director of Premier Inn and is now Managing Director of Whitbread Hotels & Restaurants.

External appointments:

- Talent & Skills (Business in the Community) (Leadership Team Member)
- Hospitality Action (Trustee)
- British Hospitality Association (Director)
- Great Ormond Street Hospital Children's Charity (Corporate Partnerships Board Member)



Simon Melliss
Independent non-executive director
Date of appointment to the Board:
April 2007
Age: 60

Experience:
Simon, a chartered accountant, was Chief Financial Officer of Hammerson plc from 1995 to 2011, having originally joined the company in 1991 as Group Financial Controller. Prior to that he served as the Group Financial Controller of Sketchley PLC, and held senior finance positions with Reed International. Simon also previously held a non-executive directorship at Associated British Ports Holdings plc.

External appointments:

- Hermes Property Unit Trust (Chairman)
- University College London (Treasurer and member of the Council)

Committee membership:

- Audit Committee (Chairman)
- Nomination Committee



Susan Taylor Martin
Independent non-executive director
Date of appointment to the Board:
January 2012
Age: 49

Experience:
Susan is Managing Director, UKI Legal at Thomson Reuters. Other roles she held at that company include: President – Media, President – Global Investment Focus Accounts and Managing Director – UK and Ireland within Thomson Reuters Markets.

Prior to this she was Global Head, Corporate Strategy for Reuters, which she joined in 1993.

External appointments:

- Thomson Reuters (Managing Director, UKI Legal)
- Confederation of British Industry (Chair, London Council)

Committee membership:

- Audit Committee



Ian Cheshire
Independent non-executive director
Date of appointment to the Board:
February 2011
Age: 53

Experience:
Ian is Group Chief Executive of Kingfisher Plc, having previously served as Chief Executive of B&Q UK from June 2005. Prior to joining Kingfisher in 1998 he worked for a number of retail businesses including Sears and Guinness.

External appointments:

- Kingfisher Plc (Group Chief Executive)
- British Retail Consortium (Chairman)
- Cambridge Programme for Sustainability Leadership (Chairman of Advisory Board)
- Department for Work and Pensions (Lead non-executive director)

Committee membership:

- Remuneration Committee (Chairman)
- Nomination Committee

Corporate governance continued



International everyday

Costa has 253 stores in China, having added 89 in the last year.

What were the key activities of the Board this year?

The Board generally holds meetings at monthly intervals during the year and on an ad hoc basis as and when required. Ten meetings were held last year. Attendance at meetings by directors is set out below:

Meeting attendance

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Anthony Habgood	10/10	—	4/4	5/5
Andy Harrison	10/10	—	—	—
Nicholas Cadbury	3/3	—	—	—
Patrick Dempsey	10/10	—	—	—
Christopher Rogers	10/10	—	—	—
Louise Smalley	3/3	—	—	—
Richard Baker	10/10	2/3	—	5/5
Wendy Becker	10/10	2/3	—	5/5
Ian Cheshire	10/10	—	3/3	5/5
Susan Hooper	9/10	1/3	—	—
Simon Melliss	10/10	3/3	4/4	—
Susan Taylor Martin	10/10	3/3	—	—
Stephen Williams	10/10	—	4/4	5/5

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

When appointed to the Audit Committee it was known that Susan Hooper had prior commitments for the March and April meetings. Susan received the papers and provided feedback for the meetings.

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.

The agenda for each Board meeting is agreed with the Chairman and the Chief Executive so that current events and potential future issues can be discussed alongside the regular reports.

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, the Finance Director and the Managing Directors of Whitbread Hotels & Restaurants and Costa describing the operational and functional performance. Reports from the 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. 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 39.

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 valued at over £12 million;
- 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 2013 Board meeting and is available on our website.

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

As stated in the 2011/12 Annual Report and Accounts, when Christopher Rogers was appointed Managing Director of Costa Coffee, it was necessary for the Board to appoint a new Group Finance Director. The Nomination Committee began by considering the specification of a Group Finance Director and any additional skills and experience that required increased representation on the Board. The Committee then prepared a description of the capabilities required. An external search consultant, Spencer Stuart, was engaged and a number of candidates were identified. Selected candidates met with the Nomination Committee and further interviews led to the appointment of Nicholas Cadbury as the new Group Finance Director.



Corporate governance continued

A review of Board composition and the importance of the 40,000 team members to the success of the Company led to the conclusion that the Company would benefit from the appointment of the Group HR Director to the Board. The appointment of Louise demonstrates the importance of people development and talent planning at Whitbread.

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 succession planning, remuneration and corporate governance. Investor relations and market updates were also considered by the Board. The Company's auditor also prepared a paper for the Board on the key developments in accounting and governance practice.

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?

Directors are required to disclose any conflicts of interest immediately as and when they arise throughout the year. In addition, a formal process is undertaken each year in February when each director confirms to the Board details of their external interests including any other directorships which they hold.

These are 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.

Induction process

In the 2011/12 Annual Report we provided detail on the induction process for the new independent non-executive directors. In 2012/13 we appointed two new executive directors.

The induction process for Nicholas Cadbury was full, formal and tailored, focusing on Whitbread's businesses. Initial meetings were held with the Chairman, Chief Executive, Group HR Director, all executive and non-executive directors, and the Company Secretary. This was followed by time with:

- the finance director of each business;
- the IT and Digital Directors;
- the Communications Director; and
- the Pensions Director.

Nicholas met with a number of major investors and sell side analysts of the Company. Meetings were also held with the Group's bankers, auditors, lawyers and advisers.

Nicholas was provided with a detailed review of all of our businesses and went on several visits to different Premier Inn, Restaurant and Costa sites. He also spent a day working in a restaurant and completed a tour of the Costa Roastery. This provided valuable insight into the Company and allowed Nicholas to develop his understanding of each business.

The induction process for Louise was comprehensive and tailored, focussing on the key responsibilities and duties of directors. Louise already had a detailed knowledge of Whitbread's businesses so focused on meeting with the Group's advisers, including brokers for a briefing on shareholder engagement, and the Company's lawyers on the responsibilities of directors.

Training and development goes well beyond the induction process and is an ongoing process for all Board members.

How is the independence of directors assessed?

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

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

The Company has appropriate directors' and 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.



Corporate governance continued

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 and Chief Executive are set out below:

Chairman	Chief Executive
<ul style="list-style-type: none">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.Maintaining contact with major shareholders and ensuring that Board members understand their views concerning the Company.Ensuring a culture of openness and debate around the Board table.Leading the annual evaluation of the Board, the committees and individual directors.Ensuring, through the General Counsel, that the members of the Board receive accurate, timely and clear information.	<ul style="list-style-type: none">Optimising the performance of the Company.Ensuring effective communication with shareholders and employees.The creation of shareholder value by delivering profitable growth and a good return on capital.Ensuring the Company has a strong team of high-calibre executives, and putting in place appropriate management succession and development plans.Leading the activities of the Whitbread Leadership Forum — a group of the Company's most senior executives.

The role of the Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and supports him in the delivery of his objectives. The Senior Independent Director is available to shareholders if they have concerns which the normal channels have failed to resolve or which would be inappropriate to raise with the Chairman or the executive team. He also leads the evaluation of the Chairman on behalf of the other directors.

The role of the executive directors

The executive directors are responsible for the day-to-day running of the business and for implementing the operational strategic plans of the Company.

The role of the non-executive directors

The non-executive directors play a key role in constructively challenging and scrutinising the performance of the management of the Company.

How is performance evaluated?

Board and committees:

An annual evaluation of the Board and committees is carried out. Last year an external evaluation was held and this year it was conducted internally.

This year's evaluation had two aspects:

- each director completed a formal questionnaire on the performance of the Board and each of the Board committees; and
- the Chairman met or spoke to all directors on a one-to-one basis.

The conclusions of the review were that the directors were aligned in their view that the Board functioned well and received appropriate information to consider the main strategic items.

Areas of discussion were:

- the presentation of the WINcard at Board meetings; and
- contact with the Whitbread Hotels & Restaurants International Board.

In response to last year's evaluation, the following action has been taken:

- an annual update on relevant regulatory, accounting and legal issues from the auditor;
- a planning and review meeting of the Nomination Committee is held on an annual basis; and
- meetings have been held at different Company sites, and in November 2013 the Board will travel to India and the Middle East to attend a Board meeting and review new developments in these markets.

In accordance with the Code, we intend to have an externally facilitated evaluation of the Board at least every three years.

Individual directors:

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

Chairman:

Each 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 with the Chairman.

Corporate governance continued



Smart everyday

We continue to invest in Costa; 120 stores have been refurbished this year.

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), where information and news is regularly updated;
- the Annual Report, which sets out details of the Company's strategy, business models 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 and these are available on the Company's website.

In addition, all shareholders are able to contact the Company via the website, email, telephone or post to raise issues.

The Company also takes opportunities to interact more directly with institutional and private shareholders.

Institutional shareholders:

- the Chief Executive, Group Finance Director and Director of Investor Relations held meetings with institutional investors following the full-year and interim results;
- the Chairman met institutional shareholders on request;
- the Board received updates on the views of major shareholders from the Company's brokers; and
- Investor Days will take place in July and December this year.

Private shareholders:

- live webcast presentations of the annual and interim results; and
- electronic communications with shareholders including use of the online share portal.

How are shareholders able to participate in the AGM?

In accordance with the Code, the Notice of AGM and related papers are sent to the 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 end of 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 64 to 67.

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 2012/13 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 Code. A report of the key risks can be found on pages 34 to 37.

Risk analysis

- The Board identifies the principal risks of the Company on a regular basis and throughout the year it reviews the actions in place to mitigate the risks together with assurance and monitoring activity. The analysis covers health and safety, financial, market, operational and reputational risks which the Company may face as well as specific areas identified in the business plan and budget process.
- Each of the businesses also carries out its own risk analysis together with PwC as operational auditor and this is reviewed regularly by the management boards.
- All major capital and revenue projects, together with significant change programmes, include the consideration of the risks involved and an appropriate action plan.
- The scope of the audit agreed with Ernst & Young will identify the specific financial risks facing the Group.



Corporate governance continued

Controls

- The Company reviews and confirms its compliance with the Corporate Governance Code on an annual basis.
- The matters reserved to the Board require that major projects and programmes must have specific Board approval.
- Limits of delegations and authority are prescribed to ensure that the appropriate approvals are obtained if Board authority is not required to ensure appropriate segregation of tasks.
- Group financial policies controls and procedures are in place and regularly reviewed and updated.
- The Whitbread Code of Conduct, setting out required levels of ethics and behaviour, is communicated to employees.
- The Code of Conduct makes reference to specific policies and procedures which have to be followed.
- Management is responsible for ensuring the appropriate maintenance of financial records and processes that ensure that financial information is relevant, reliable, in accordance with applicable laws and regulations and is distributed both internally and externally in a timely manner.
- A review of the 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 and the Board.
- An annual review of internal controls is undertaken by the Board with the assistance of the Audit Committee.

Assurance

- The Board, with the assistance of the Audit Committee, approves an audit programme which ensures that the significant areas of risk identified are independently reviewed within at least a three-year period.
- The programme and the results of the audits are regularly assessed during the year.
- The Audit Committee reviews the major findings from both the operational and external audits.
- PwC, as operational auditor, has been appointed to carry out the independent audits. Its reports are reviewed by the Audit Committee and on a monthly basis by the management team to ensure that the actions required to address issues identified are implemented.
- PwC reports annually to the Audit Committee on the effectiveness of operational and financial controls across the Group.

- Ernst & Young review and report on the significant issues identified in their audit report and liaise with PwC in covering the agreed areas of risk throughout the year.
- An internal control evaluation process is overseen by the management team which assesses the level of compliance with the controls, policies and processes and the results are reviewed and tested on a sample basis by PwC.
- Post-completion reviews of major projects and investments are carried out and reported on to the Board.

Going concern

The directors' going concern statement can be found in the directors' report on page 67.

Business model and strategy

Information on the Group's business model and strategy can be found on pages 8 to 25.

Board Committees

The Board is supported by three committees; the Audit Committee, the Nomination Committee and the Remuneration Committee. Their terms of reference are reviewed annually and updated in line with best practice. They have been updated in 2013 to reflect certain of the changes in the 2012 Code. 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 49 to 63. Reports for the Audit and Nomination Committees can be found on pages 47 and 48 respectively.

Audit Committee report



Simon Melliss
Chairman of the
Audit Committee

Members of the Audit Committee:

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

Role of the Audit Committee

The principal role of the Audit Committee is the review of the Company's financial results and internal controls. The Committee meets three times a year, and will hold additional meetings as and when required. The full terms of reference are available on the Company's website.

Financial results

The Committee agrees the scope of the year's audit, the areas of focus, the engagement letter and the fees of the Auditor at a meeting in October each year. At the meeting in April, it receives presentations from the Group Finance Director and the lead auditor on the financial results for the full-year, any important judgements or estimates made in the process, any points of difference identified in the audit and any outstanding work to be done before an unqualified opinion will be given. At the same meeting the Committee reviews the RNS announcement of the results, a going concern statement and other important elements from the preparation of the accounts, including the management representation letter. This is all reported to the next Board meeting.

A similar process takes place at the Committee's meeting in October for the half-year results although this is not subject to a full audit.

At both of the meetings described above the Committee meets with the external and the operational auditors without the management team being present to give an opportunity for any issues to be raised.

Auditor

The Committee oversees the relationship with the external auditor. Each year there is a review of the performance of the external auditor and its independence and effectiveness. The Audit Committee carried out a competitive tender of the external audit in 2010/11 and recommended that Ernst & Young be reappointed. As the lead partner has been in the position for five years, a new lead partner will be appointed in 2013/14. This rotation will maintain the objectivity and independence of the Group's external auditor.

Internal controls

The Audit Committee holds an annual evaluation of internal controls in March. The Committee reviews the Group risk matrix and assesses the effectiveness of the internal processes that have been implemented to enable those risks to be mitigated and monitored. This review is completed in

conjunction with an Internal Controls Effectiveness Review from PwC as operational auditor. Each risk is assessed and the level of assurance required is determined.

The Audit Committee then approves a plan from PwC to carry out reviews of the chosen areas during the following year.

As part of its duty to review the effectiveness of the Company's financial reporting and internal controls, this year the Committee:

- received updates from the IS Director on the status of the security in the Company's information systems in the context of general concerns about cyber attacks and personal information;
- reviewed a revised method of carrying out the internal controls evaluation and reporting to the Committee; and
- received reports from management and PwC on controls in a support centre function and made recommendations for improvements to various internal processes.

Further information on risk management can be found on pages 34 to 37.

Committee duties

Other Committee duties which are carried out during the year are:

- reviewing the speaking out facility which enables genuine issues concerning the Company to be raised anonymously and without fear of reprisal. A summary report of the matters raised and the findings of the investigations is also considered by the Committee; and
- confirming that the terms of reference of the Committee remain up to date and in line with good corporate governance.

Changes relating to the Audit Committee in the 2012 Code

The terms of reference of the Audit Committee have been revised to provide for:

- the Committee reporting to the Board on how it has discharged its responsibilities; and
- the external audit contract to go out to tender at least every ten years.

During the early part of the year the Committee will be reviewing the requirements of the 2012 Code in relation to the review of the report and accounts on behalf of the Board. It will then put in place the appropriate processes that will enable this to be completed.

Signed and approved on behalf of the Board.

Simon Melliss

Chairman, Audit Committee

29 April 2013

Nomination Committee report



Anthony Habgood
Chairman of the
Nomination
Committee

Members of the Nomination Committee

- Anthony Habgood (Chairman)
- Ian Cheshire
- Simon Melliss
- Stephen Williams
- Simon Barratt (Secretary)

Nomination Committee – main activities in 2012/13

- Selection and appointment process for a new Group Finance Director, leading to the recommendation that Nicholas Cadbury be appointed to the Board.
- Recommendation to appoint Louise Smalley, Group HR Director to the Board.
- Annual planning and review meeting.
- Review of the Board size, structure and composition.
- Review of the talent and succession planning for the Board.

Role of the Nomination Committee

The role of the Nomination Committee is to review the composition of the Board and to identify and nominate directors who could enhance the Board's performance. The Committee is also responsible for evaluating the directors on an annual basis.

The Committee meets twice a year to review its terms of reference, and consider the annual re-election of directors. Additional meetings are held as and when required for the selection and appointment process of new directors.

The full terms of reference are available on the Company's website.

Our approach to the annual re-election of directors

As required by the Code, all directors will be subject to re-election at the next AGM. The Nomination Committee held a planning and review meeting in March when the contribution and commitment of each member of the Board was reviewed. Following this discussion it was recommended that all directors be proposed for reappointment at this year's AGM. Details setting out why each director is deemed to be suitable for reappointment will be included with the AGM papers circulated to all shareholders.

Simon Melliss' second three-year term came to an end in April 2013. In view of Simon's strong leadership of the Audit Committee and his contribution generally to Board discussions, the Nomination Committee was satisfied that his reappointment would be beneficial to the Company, and recommended that he be reappointed for a further three-year period. No other non-executive director of the current Board has been a director for a term longer than six years.

In accordance with the 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.

Changes relating to the Nomination Committee in the 2012 Code

Following the changes in the 2012 Code, the terms of reference of the Nomination Committee have been revised and approved by the Board. These changes reflect the inclusion of gender when reviewing the structure, size and composition of the Board.

In accordance with the 2012 Code, it is intended that the 2013/14 Annual Report and Accounts will include a description of the Board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives.

Signed and approved on behalf of the Board.

Anthony Habgood
Chairman

29 April 2013

Remuneration report – Introduction



Ian Cheshire
Chairman of the
Remuneration
Committee

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

Introduction from Ian Cheshire

In last year's report, I explained that we had taken the opportunity to redefine Whitbread's remuneration principles, which are outlined on page 53 of this report. The intention of the principles is to ensure that remuneration arrangements are aligned to and support the delivery of the Group's business strategy and shareholder value creation.

Whitbread's 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) performance conditions were proposed and approved at the 2012 AGM. Further details on the LTIP can be found on page 55.



	Scheme	Measures
Winning Teams	<ul style="list-style-type: none"> • Annual Incentive Scheme 	<ul style="list-style-type: none"> • Your Say engagement survey • Health and safety hurdle
Customer Heartbeat	<ul style="list-style-type: none"> • Annual Incentive Scheme 	<ul style="list-style-type: none"> • Guest net recommend • Brand delivery • Like for like sales • Health and safety hurdle
Profitable Growth	<ul style="list-style-type: none"> • LTIP • Annual Incentive Scheme 	<ul style="list-style-type: none"> • EPS • Return on capital • Profit • Market performance/brand growth
Good Together	<ul style="list-style-type: none"> • Annual Incentive Scheme 	<ul style="list-style-type: none"> • Carbon consumption • Waste to landfill



Remuneration report – Introduction continued

Along with profit and returns targets, the WINcard remains 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 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. We intend to deliver these aims whilst being a force for good in the communities in which we operate. The diagram on page 49 shows how elements of the remuneration package are linked to this model.

A significant proportion of the incentives available to executives are paid in shares, a material element of which are deferred. The Remuneration Committee believes that executives should use the incentive schemes to build a significant shareholding in the Company in order to provide greater alignment between executives and shareholders. We also strengthened our shareholding guidelines, details of which can be found on page 58, in relation to the retention of a proportion of vesting share awards until the guidelines have been met.

2012/13 highlights

Performance linked to reward

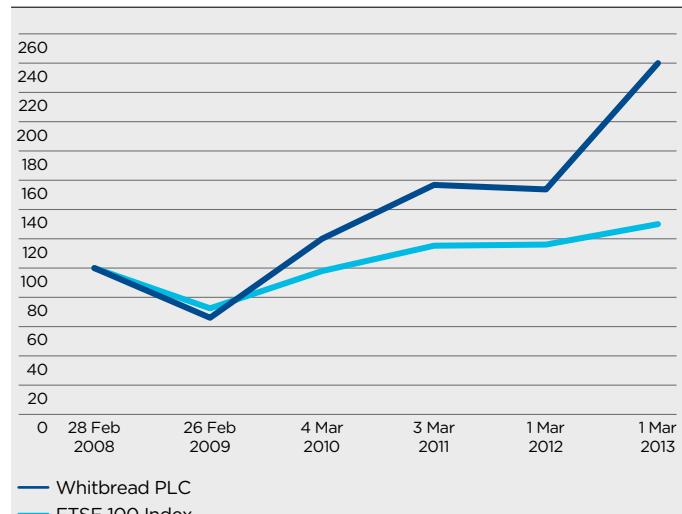
Whitbread has once again delivered an excellent set of results in 2012/13, with double-digit growth in sales, profits and dividend. As explained above, the Group's strategy is to grow its leading brands with a clear focus on returns in order to create substantial shareholder value. The Committee is pleased to note that, as well as the strong trading performance, the Group remains on track to achieve its growth milestones, whilst continuing to grow returns and shareholder value. The Group's return on capital increased to 14% from 13.6% in the prior year.

Last year, we reported that the Company had performed well, but had not quite achieved its profit target. As a result, incentive awards were at a reduced level in 2011/12. This year, the improved performance has led to a well-deserved increase in awards. Details can be found on page 57. In addition, the Group's sustained performance over the last three years has led to a significant proportion of the 2010 LTIP awards vesting and details of this can be found on page 55.

Executive directors' service contracts

During the year we implemented the policy that the executive directors' service agreements be in consistent form and reflecting best practice in relation to termination payments. Details of the key terms of these agreements can be found on page 58.

Total shareholder return



The chart looks at the value over five years of £100 invested in Whitbread PLC on 28 February 2008 compared, on a consistent basis, with that of £100 invested in the FTSE 100 Index based on 30 trading day average values.

Source: Thomson Reuters Datastream

Changes to the Board

Christopher Rogers began his new role as Managing Director of Costa in July 2012. He continued as Group Finance Director until Nicholas Cadbury joined the Company in November. As disclosed last year, Christopher remained on the Board and his remuneration package was unchanged, except that with effect from 1 September 2012 his incentive targets became based on the Costa WINcard, with the profit element split 50:50 between Costa PBIT and Group underlying profit.

Nicholas Cadbury and Louise Smalley joined the Board during the year. In each case the Remuneration Committee based the packages offered to the new directors on the remuneration principles outlined on page 53.

Nicholas Cadbury joined the Board as Group Finance Director on 14 November 2012. Nicholas's remuneration package includes:

- a salary of £460,000;
- a potential award under the Whitbread Incentive Scheme (subject to the achievement of Group underlying profit targets and Group WINcard measures) to a maximum value of 167% of salary (on a pro-rata basis in 2012/13);
- an annual award to the value of 125% of salary under the Long Term Incentive Plan; and
- a pension contribution (or cash in lieu of a pension contribution) to the value of 25% of salary.



Remuneration report – Introduction continued

Louise Smalley, Group HR Director since 2007, was appointed to the Board on 1 November 2012. Louise's remuneration package includes:

- a salary of £300,000;
- a potential award under the Whitbread Incentive Scheme (subject to the achievement of Group underlying profit targets and Group WINcard measures) to a maximum value of 167% of salary (on a pro-rata basis in 2012/13);
- an annual award to the value of 125% of salary under the Long Term Incentive Plan; and
- a pension contribution (or cash in lieu of a pension contribution) to the value of 25% of salary.

Pension

There has been a change to the policy on pension contributions during the year. Previously, the executive directors were 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 up to a maximum of 30%.

The Remuneration Committee reviewed this policy in the light of best practice and determined that there would be no future pension contributions in excess of 27.5% of salary for current executive directors. It was further agreed that any new executive directors would receive a contribution of 25% of salary with no further increases for service.

2013 salary review

When reviewing the salaries of the executive directors the Committee takes 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 our remuneration policy.

The general salary increase across Whitbread in May 2013 will be 2.25%. Andy Harrison and Christopher Rogers will each receive an increase at this rate. The Committee awarded Patrick Dempsey an increase of 5.6% in recognition of his significant contribution to the Board. Nicholas Cadbury and Louise Smalley will not be entitled to a salary review until 2014.

The basic salaries of the executive directors with effect from 1 May 2013 will be as follows:

Director	Basic salary at 1 May 2013	Basic salary at 1 May 2012 ¹
Andy Harrison	£733,644	£717,500
Nicholas Cadbury	£460,000	£460,000
Patrick Dempsey	£450,000	£426,300
Christopher Rogers	£516,056	£504,700
Louise Smalley	£300,000	£300,000

¹ Or at the date the director was appointed to the Board.

Total remuneration received by executive directors

The following table shows the total amount of remuneration received by each of the executive directors in 2012/13. This includes the director's salary and bonus (both the cash element to be paid in May 2013 and the deferred shares to be awarded in 2013 under the Annual Incentive Scheme), any cash paid in lieu of pension or other benefits, an amount representing LTIP awards made in 2010 and vesting in 2013 and any profit made on the exercise of Sharesave options during the year. The value given for the LTIP awards is based on the average market value over the last quarter of the financial year (2525.64p), as the awards will not become exercisable until after the date of this report.

Director	Total remuneration received in 2012/13 ¹	Total remuneration received in 2011/12 ²
Andy Harrison	£3,408,219	£1,442,748
Nicholas Cadbury	£319,814	n/a
Patrick Dempsey	£1,624,258	£1,661,356
Christopher Rogers	£2,202,256	£2,051,576
Louise Smalley	£251,289	n/a

- 1 The figures shown represent total remuneration received since the date of appointment to the Board for Nicholas Cadbury and Louise Smalley. The figures relating to LTIP awards vesting in 2013 are pro-rated based on the proportion of the three-year performance period that the individual was a director. This was 30 months for Andy Harrison and four months for Louise Smalley.
- 2 The 2011/12 comparatives have been re-stated to reflect the latest draft of the proposed guidance on directors' remuneration issued by BIS. Specifically, the updated figures include the deferred shares awarded in 2012 and not the deferred shares awarded in 2009 and vesting in 2012.

There are two main reasons for the increase in Andy Harrison's remuneration over the prior year. Firstly, LTIP awards have vested to him for the first time. As disclosed in 2010/11 Andy received an LTIP award of 175% salary on his appointment three years ago. 89% of this award has vested as a result of the Company's EPS growing in excess of RPI + 10% p.a. and TSR being between median and upper quartile versus the comparator group over the three-year performance period. (During the performance period the share price has risen from £14.14, being the price used to calculate the award, to £25.25.)

Secondly, the improved performance of the Company in 2012/13 led to a bonus of £897,198 (more than half of which is deferred for a further three years) compared with £545,990 in the prior year.

These rewards, as well as the rewards received by other executives, are a direct result of the delivery of the Group's business strategy and the creation of shareholder value and, as such, are a good example of how the Company's remuneration strategy is aligned with the interests of shareholders.



Remuneration report – Remuneration Committee

Remuneration Committee – membership, key duties and advisers

Members of the Remuneration Committee

- Ian Cheshire (Chairman)
- Richard Baker
- Wendy Becker
- Anthony Habgood
- Stephen Williams
- Simon Barratt (Secretary)

Key duties

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

- 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, 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.

Internal advisers

Simon Barratt — General Counsel

Louise Smalley — Group HR Director

External advisers

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
(Slaughter and May also provide legal services to the Company)

Remuneration Committee agenda — 2012/13

- Approval of Annual Incentive Scheme targets for 2012/13.
- Received updates on the investor consultation on amendments to LTIP performance conditions.
- Approval of awards of cash and deferred shares to executive directors under the Annual Incentive Scheme.
- Executive directors' salary review.
- Confirmation of the vesting percentages for the LTIP award made in 2009 and vesting in 2012.
- Approval of the remuneration package for Christopher Rogers in his new role as Managing Director of Costa.
- Approval of the 2012 remuneration report.
- Approval of updated terms of reference.
- Approval of 2012 LTIP awards, subject to shareholder approval at the 2012 AGM.
- Approval of the remuneration package for Nicholas Cadbury.
- Confirmation of the performance conditions for the 2012 LTIP awards.
- Approval of the remuneration package for Louise Smalley.
- Review of the shareholding guideline for senior executives.
- Review of the pension arrangements for senior executives.

Remuneration principles and structure for 2013/14

In November 2011, the Committee approved the following remuneration principles:

Overall remuneration principles

Our approach to senior executive remuneration is designed to:

- be aligned to the business strategy and the achievement of planned business goals;
- support the creation of sustainable long-term shareholder value;
- provide an appropriate balance between remuneration elements that attract, retain and motivate the right calibre of executive talent; and
- 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.

The table on page 53 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 55 to 57.



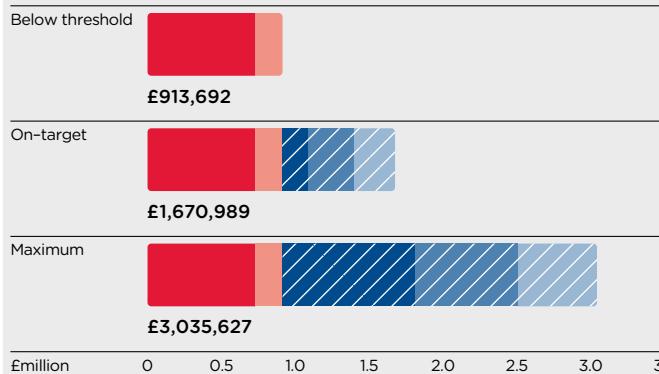
Remuneration report – Remuneration principles

Principles	How it works	2013/14 potential remuneration	
Base salary	<ul style="list-style-type: none">Sufficient to attract and retain the calibre of executive talent needed to support the long-term interests of the business.Periodically reviewed taking into account the organisation's annual review process, business performance, appropriate market data and an individual's contribution to the Group.	<p>Salaries are reviewed annually taking account of:</p> <ul style="list-style-type: none">changes to salaries across the Group;trading circumstances;personal performance against agreed objectives; andbenchmarking data against the FTSE 51–150.	<ul style="list-style-type: none">Andy Harrison: £730,953Nicholas Cadbury: £460,000Patrick Dempsey: £446,050Christopher Rogers: £514,163Louise Smalley: £300,000
Long Term Incentive Plan	<ul style="list-style-type: none">To closely align the interests of senior executives with sustainable long-term shareholder value creation.To focus rewards on both the sustained delivery of absolute long-term earnings growth and the efficient use of capital over the long-term.To retain executives over the three-year performance period of the awards.	<ul style="list-style-type: none">Awards made annually.Awards vest after three years subject to performance conditions.75% of award based on EPS growth, subject to a ROCE hurdle.ROCE also acts as a multiplier on a straight-line sliding scale to increase the EPS element by up to a further third.	<ul style="list-style-type: none">Award to the value of 125% of salary.
Annual Incentive Scheme	<ul style="list-style-type: none">To provide a direct link between annual performance and reward;To incentivise the achievement of outstanding results across appropriate key stakeholder measures;To use a consistent profit incentive range which will only be altered for a new incentive year in exceptional circumstances; andTo 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.	<ul style="list-style-type: none">Targets for both financial and non-financial measures set at the beginning of the bonus year.Cash awards paid in May following the end of the financial year.Deferred shares awarded and, under normal circumstances, released three years after the date of award.Clawback provisions apply to unvested deferred shares in the event of a material misstatement of results.	<ul style="list-style-type: none">On-target performance: 80% of salary (38% paid in cash, 42% paid in deferred shares).At stretch performance: 167% of salary (73% paid in cash, 94% paid in deferred shares).Awards are made for the profit element on a straight-line basis between 95% of target (threshold) and 110% of target (stretch).
Pension	<ul style="list-style-type: none">Sufficient to attract and retain the calibre of executive talent needed to support the long-term interests of the business.	<ul style="list-style-type: none">Entitled to participate in the Company's pension scheme.Defined contribution scheme.Can elect for cash in lieu of pension contributions.If cash is taken, the amount is reduced by the value of the employer's national insurance liability.	<p>Pension contribution (or cash in lieu of pension) as follows:</p> <ul style="list-style-type: none">Andy Harrison: 25%Nicholas Cadbury: 25%Patrick Dempsey: 27.5%Christopher Rogers: 27.5%Louise Smalley: 25%

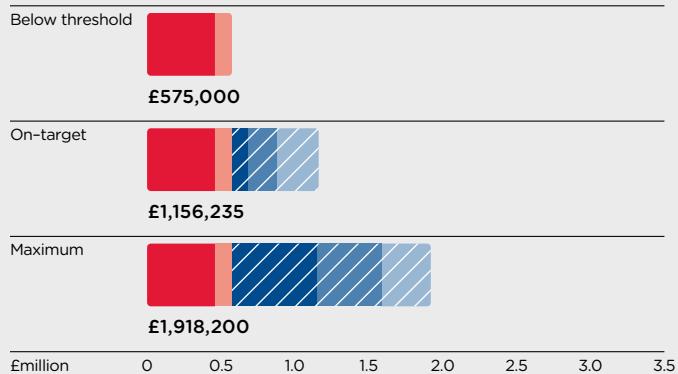
Remuneration report – Potential value of 2013/14 package/LTIP

Executive directors – potential value of 2013/14 package

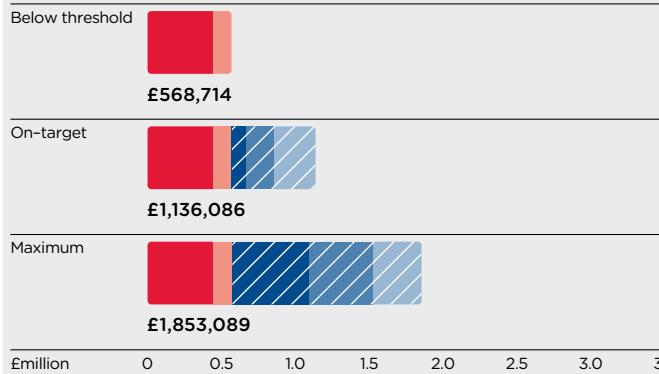
Andy Harrison



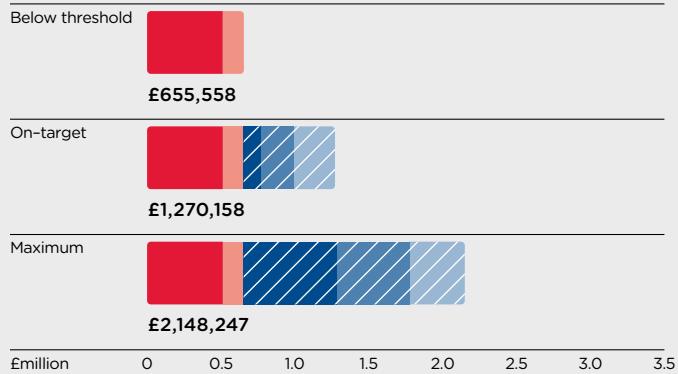
Nicholas Cadbury



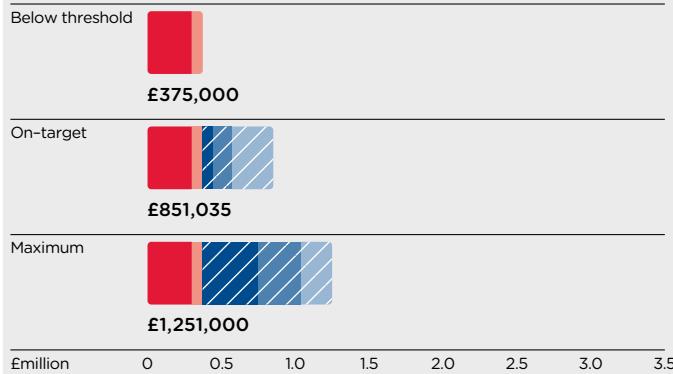
Patrick Dempsey



Christopher Rogers



Louise Smalley



Key

Fixed elements

- Base salary
- Pension

Variable elements

- LTIP
- Deferred element of Annual Incentive Scheme
- Cash bonus

On-target performance assumes on-target bonus, a mix of green and amber WINcard scores and threshold vesting under the LTIP. Maximum performance assumes maximum bonus, all green WINcard scores and maximum LTIP vesting. In both cases, for simplicity, no share price growth is assumed.

Link between strategy and LTIP reward

Strategy

Whitbread's strategy is to invest in growing its leading brands, Premier Inn and Costa. We have announced new growth milestones to increase the size of Premier Inn UK to around 75,000 rooms and to roughly double Costa's system sales to £2 billion by 2018. This will involve substantial capital commitment as we continue to grow in the UK and develop in our international markets.

LTIP reward

To reward executives for those elements of performance responsible for the achievement of the strategy and therefore clearly align incentives towards delivering improved shareholder value. Award levels are currently set at a maximum of 125% of salary for executive directors.

Long Term Incentive Plan (LTIP)

Structure

The LTIP is designed to closely align the interests of senior executives with shareholders. It operates as follows:

- executives receive an annual LTIP award based on a percentage of salary;
- there is a three-year performance period;
- at the end of the three-year performance period, the vesting levels for the awards are determined based on the extent to which performance targets have been met; and
- any vested awards become nil-cost options and executives have up to seven years to call for the vested shares.

Performance conditions

The Remuneration Committee reviewed the performance conditions for the LTIP in 2012 and determined that it would be appropriate to change them in order to align the LTIP more closely with the Group's strategic aims. After consulting with major shareholders, as well as with the ABI and RREV, shareholders were asked to approve the new performance conditions at the 2012 AGM. 99.4% of shareholders voted in favour of the amended performance conditions.

As a result, the awards made in 2012, were made on the new basis with performance conditions operating as follows:

- EPS and ROCE measures on a matrix basis;
- the ROCE measure operates both as a hurdle and as a multiplier to a base award generated by performance against the EPS measure;
- up to 75% of awards are dependant on EPS growth over the three-year performance period, subject to a satisfactory ROCE performance;
- ROCE will 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 will vest if a minimum level of ROCE of 12% is not achieved in 2014/15; and
- the Committee will have the discretion to reduce the vesting levels if it believes that performance has not been sufficiently value-enhancing during the performance period.

Clawback

Unlike the Annual Incentive Scheme, for which clawback provisions were introduced, the Committee decided that clawback provisions would be impractical for the LTIP. This is because awards are typically exercised shortly after performance conditions are calculated and vesting is confirmed. As such, the Committee was unconvinced that clawback provisions would be enforceable in practice. However, the Committee confirmed that it would consider reducing the vesting of future LTIP awards in the event of a mis-statement of results leading to an increased vesting level.

Awards to be made in 2013

LTIP awards will be made to the executive directors in 2013 to the value of 125% of salary. The awards will be subject to the same performance conditions as those awards made in 2012. The matrix below shows how the performance conditions will operate.

ROCE 2015/16							
EPS growth above RPI per annum	Sliding Scale						
	Threshold		Maximum				
	11%	12%	13%	14%	15%	16%	17%
	<4%	0%	0%	0%	0%	0%	0%
	4%	0%	19%	19%	20%	22%	24%
	6%	0%	37%	37%	40%	44%	50%
	8%	0%	56%	56%	61%	66%	71%
	10%	0%	75%	75%	82%	89%	96%
Maximum							

Awards vesting in 2013

The LTIP awards made to executives in 2010 were subject to independently operating performance conditions as set out in the table below. The outcome of each condition is also shown in the table.

Performance conditions (each applicable to half of the total award)	Outcome	Proportion of the award vesting	
		39.77%	50.00%
TSR growth against selected FTSE 51-150 constituents – median (25% vests) to upper quartile (100% vests).	Whitbread was ranked 18th out of 55 representing performance between median and upper quartile.		
EPS growth must be at least equal to or exceed RPI + 4% p.a. (25% vests) to RPI + 10% p.a. (100% vests).	The EPS growth over the three-year performance period was in excess of RPI + 10% p.a.		

As a result 89.77% of the shares awarded under the 2010 LTIP have vested. The awards vesting to the executive directors are as follows:

Director	Number of shares vested
Andy Harrison	64,772 ¹
Patrick Dempsey	25,379
Christopher Rogers	35,310
Louise Smalley	871 ¹

¹ The numbers shown represent the shares vesting based on the proportion of the performance period that the individual was a director as required by the regulations. Andy Harrison has been a director for 30 months out of the three-year performance period and Louise Smalley for four months. The total number of shares vesting will be 77,726 to Andy and 7,842 to Louise.

Remuneration report – Annual Incentive Scheme continued

Annual Incentive Scheme

Structure

The Annual Incentive Scheme is the Company's bonus scheme, which applies to approximately 80 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 follows:

- the performance in the first year is measured against both financial and non-financial measures to determine the level of awards;
- the measures are set by the Remuneration Committee so that 'on-target' performance has in-built stretch;
- at the end of the first year cash payments are made and any deferred shares are awarded as appropriate;
- there is a further three-year holding period for the deferred shares before they vest to the executive; and
- clawback provisions apply to the deferred share awards in the event of a material misstatement of results.

There are two types of measure used to determine the level of awards under the scheme. There is a **profit measure** and there are a number of **WINcard measures**. The scheme is designed to incentivise executives to deliver great results by providing an excellent environment for our people, and giving them the tools to make everyday experiences special for our customers. The team engagement and guest heartbeat measures are up-weighted to reflect the importance of those elements to Whitbread's success. In addition, there is a health and safety measure, which acts as a hurdle, demonstrating our determination to provide a safe environment for employees and customers alike. The profit measure is the most incentivised element with an award to the value of 137% of salary available for stretch performance.

Link between strategy and Annual Incentive Scheme reward Strategy

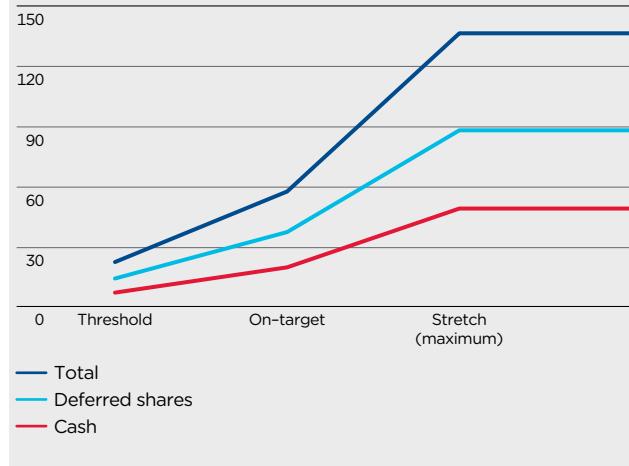
We believe that our Winning Teams make everyday experiences special for our customers so they come back time and time again, driving Profitable Growth. The WINcard contains KPIs for Winning Teams, Customer Heartbeat and Profitable Growth.

Profit measure 2013/14

The profit measures set for the executive directors for 2013/14 are appropriate to each director's role. Nicholas Cadbury, Andy Harrison and Louise Smalley have a Group underlying PBIT measure. Patrick Dempsey will have a profit measure split on a 40:60 basis between Group Underlying PBIT and Whitbread Hotels & Restaurants PBT, whilst Christopher Rogers will have a profit measure split on a 40:60 basis between Group Underlying PBIT and Costa PBT.

The graph below 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.

Profit performance (% of salary)



Annual Incentive Scheme reward

Executive directors can earn up to 137% of salary based on profit performance and up to a further 30% based on WINcard targets, which include non-financial KPIs. A material part of any award is deferred for three years.



Remuneration report – Annual Incentive Scheme continued

WINcard measures 2013/14

Each executive director will be incentivised based on six WINcard targets appropriate to the director's role. The targets include two up-weighted measures (each worth 9% of salary for a green score and 4.5% of salary for an amber score) and four standard measures (each worth 3% of salary for a green score and 1.5% of salary for an amber score). 80% of any awards made in relation to these WINcard measures are made in cash, with the remaining 20% being deferred equity. Further information on the WINcard targets can be found on pages 26 to 29.

Awards for 2012/13

In 2012/13, the executive directors earned awards¹ under the Annual Incentive Scheme as follows:

Awards based on profit measure

Director	% of salary in cash	% of salary in deferred shares	Total % of salary
Andy Harrison	34.79	63.25	98.04
Nicholas Cadbury	10.23	18.60	28.83
Patrick Dempsey	31.89	58.20	90.09
Christopher Rogers	38.32	69.41	107.73
Louise Smalley	11.47	20.86	32.33

Awards based on WINcard measures

The WINcard targets in 2012/13 were appropriate to the director's role. For example, Patrick Dempsey had WINcard measures specific to Whitbread Hotels & Restaurants. For the first half of the year Christopher Rogers had Group targets and, following his appointment as Managing Director of Costa at the half-year, he had Costa measures in the second half of the year. The award to be made to Nicholas Cadbury has been calculated on a pro-rata basis from the date of his appointment, whilst the award to be made to Louise Smalley is partly based on her salary prior to her appointment to the Board and partly based on her new salary. Nicholas Cadbury, Andy Harrison and Louise Smalley each had 100% Group targets.

All executive directors had five green WINcard scores in the year, two of which were up-weighted. Christopher Rogers also had one amber score.

Director	% of salary in cash	% of salary in deferred shares	Total % of salary
Andy Harrison	21.60	5.40	27.00
Nicholas Cadbury	6.35	1.59	7.94
Patrick Dempsey	21.60	5.40	27.00
Christopher Rogers	22.20	5.55	27.75
Louise Smalley	7.12	1.78	8.90

Total awards

Director	% of salary in cash	% of salary in deferred shares	Total % of salary
Andy Harrison	56.39	68.65	125.04
Nicholas Cadbury	16.58	20.19	36.77
Patrick Dempsey	53.49	63.60	117.09
Christopher Rogers	60.52	74.96	135.48
Louise Smalley	18.59	22.64	41.23

¹ Awards are calculated on a pro-rata basis to reflect the date of appointment to a new role and changes in role and/or salary as appropriate.



Remuneration report – Other information

Other information relating to the executive directors

Pension

Like all employees, the executive directors are entitled to participate in the Company's pension scheme. The scheme is a defined contribution scheme. The levels of contribution for employees vary depending on the job grade of the individual, with employees at the entry level able to contribute 2% of their salary and receive a Company contribution of 3% of salary. Life assurance is provided to employees who choose to join the pension scheme. Employees who do not choose to participate may be automatically enrolled with contributions in line with the automatic enrolment regulations.

As explained on page 51 there was a change to the policy on pension contributions for the executive directors during the year, with a reduction in the upper limit for Company contributions from 30% to 27.5% of salary. No future executive director will receive contributions above 25% of salary.

Executives are able to 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 Nicholas Cadbury, Patrick Dempsey and Louise Smalley each receive a pension contribution and a cash supplement representing the balance over and above the annual allowance set by HMRC for pension contributions.

The percentage of salary currently received by the executive directors, together with the year in which the contribution would increase to 27.5% where applicable, is shown in the table below.

Director	Current % of salary	Year in which contribution is due to increase to 27.5% of salary
Andy Harrison	25.0	2015
Nicholas Cadbury	25.0	2017
Patrick Dempsey	27.5	n/a
Christopher Rogers	27.5	n/a
Louise Smalley	25.0	2017

Other benefits

All executive directors are entitled to a company car or a cash allowance. They also receive private health cover.

Shareholding guidelines for executives

The Committee believes that the shareholding guidelines for executives play an important role in the alignment of the interests of executives and shareholders and help to incentivise executives to deliver sustainable long-term performance.

Executive directors are required to build and hold a shareholding at least 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. Until they reach this level, executives are expected to retain a proportion of vesting awards. The table below shows the holdings of executive directors as at 28 February 2013:

Director	Value of shareholding at 28 February 2013	% of salary
Andy Harrison	£4,821,604	672
Nicholas Cadbury	£15,138	3
Patrick Dempsey	£629,665	148
Christopher Rogers	£1,261,500	250
Louise Smalley	£290,095	97

Terms of executive directors' service contracts

The key terms of the executive directors' service contracts, which have been standardised during the year, 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 the executive directors, the Company may terminate the director's contract by paying the salary, together with pension contributions (or cash in lieu of pension) and benefits for a 12-month period. Payments would reduce or cease in the event that the director obtained another job in that time;
- 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:

Andy Harrison	3 March 2010
Nicholas Cadbury	3 September 2012
Patrick Dempsey	26 March 2013
Christopher Rogers	18 February 2013
Louise Smalley	25 October 2012



Remuneration report – Other information continued

Executive directors – fees from external directorships

The executive directors are entitled to retain fees from external directorships. Christopher Rogers served as a non-executive director of HMV Group plc until he stepped down from that Board on 30 June 2012. He received £15,000 during the year as a result of that directorship. None of the other executive directors received any fees from external directorships.

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. As permitted, the Company transferred 320,000 shares from its treasury shares account to the ESOT during the year to be utilised for the future satisfaction of LTIP awards.

As at 29 April 2013, the ESOT held 1,145,387 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 1 March 2013 to 29 April 2013, 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 share on 28 February 2013 was 2523p (1 March 2012: 1687p). The highest and lowest price paid for ordinary shares during the year were 2694p and 1633p respectively.

Changes since 28 February 2013

There have been no changes in the directors' interests in ordinary shares since 28 February 2013.

Dilution limits

Whitbread's share plans comply with the 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 3.50% of the 10% in ten years limit and 1.41% of the 5% in ten years limit.

2012 Annual General Meeting

At the Annual General Meeting in 2012 the advisory resolution to approve the remuneration report was passed, with 97.4% of votes received being in favour of the resolution. There were no questions raised by shareholders at the meeting relating to the Company's remuneration policy.

I am pleased with the progress we have made this year in further aligning our remuneration policies with the Company's strategy and the creation of improved shareholder value.

Signed and approved on behalf of the Board.

Ian Cheshire

Chairman, Remuneration Committee

29 April 2013

The Chairman and the non-executive directors

Although the fees paid to the Chairman and the non-executive directors are not a matter for the Remuneration Committee, details are shown here in order to comply with regulations. There have been no changes to these fees since August 2011. The Chairman's fee is £325,000, with the base fee for a non-executive director being set at £55,000. An additional fee of £15,000 is paid for chairing the Audit Committee and the Remuneration Committee and £5,000 for being a member of one of those committees. The Senior Independent Director receives an additional fee of £10,000.

Neither the Chairman nor any of the non-executive directors has a service contract. The dates of their appointment letters, together with details of their annual fees, are shown in the table below:

Director	Base fee	Additional fees	Current total fees	Total fees at date of last report	Date of appointment letter
Anthony Habgood	£325,000	n/a	£325,000	£325,000	14/04/2005
Richard Baker	£55,000	£10,000	£65,000	£65,000	04/09/2009
Wendy Becker	£55,000	£10,000	£65,000	£65,000	17/01/2008
Ian Cheshire	£55,000	£15,000	£70,000	£70,000	21/01/2011
Susan Hooper	£55,000	£5,000	£60,000	£60,000	03/08/2011
Simon Melliss	£55,000	£15,000	£70,000	£70,000	23/03/2007
Susan Taylor Martin	£55,000	£5,000	£60,000	£60,000	03/08/2011
Stephen Williams	£55,000	£15,000	£70,000	£70,000	25/04/2008



Remuneration report – Audited section

Directors' remuneration for the year to 28 February 2013 (audited information)

The table below shows a breakdown of the various elements of pay received by the directors for the period from 2 March 2012 to 28 February 2013.

	Basic salary £	Cash in lieu of pension £	Taxable benefits £	Awards under the Annual Incentive Scheme*		Total excluding pension contributions	
				Cash £	Deferred equity £	2012/13 £	2011/12 £
Chairman Anthony Habgood	325,000	—	—	—	—	325,000	314,583
Executive directors							
Andy Harrison	717,500	157,622	26,414	404,603	492,594	1,798,733	1,443,905
Nicholas Cadbury	136,424 ¹	14,279	6,422	76,275	92,836	326,236	—
Patrick Dempsey	425,250	58,826	20,726	228,052	271,124	1,003,978	743,807
Christopher Rogers	504,700	121,961	22,622	305,458	378,295	1,333,041	1,030,209
Louise Smalley	100,000 ¹	5,575	6,277	55,800	67,907	235,559	—
Non-executive directors							
Richard Baker	65,000 ^{5,6}	—	—	—	—	65,000	60,833 ^{5,6}
Wendy Becker	65,000 ^{5,6}	—	—	—	—	65,000	60,833 ^{5,6}
Ian Cheshire	70,000 ³	—	—	—	—	70,000	67,917 ³
Susan Hooper	59,583	—	—	—	—	59,583	27,500 ¹
Simon Melliss	70,000 ²	—	—	—	—	70,000	67,917 ²
Susan Taylor Martin	59,583	—	—	—	—	59,583	9,167 ¹
Stephen Williams	70,000 ^{4,6}	—	—	—	—	70,000	67,917 ^{4,6}

Total emoluments for the year were £5,482,547. The total for 2011/12 was £3,894,588. The totals shown in this table intentionally differ from those shown for the executive directors on page 51 as they do not include a value for vested share awards. In addition the deferred shares to be awarded in 2013 are shown above, whereas the deferred shares awarded in 2012 are included in the table on page 51.

*The performance related awards include a cash element and a deferred shares element as described on pages 56 and 57. In addition, Andy Harrison, Nicholas Cadbury, Patrick Dempsey, Christopher Rogers and Louise Smalley will receive awards under the Long Term Incentive Plan (LTIP) to the value of £896,875, £575,000, £532,875, £630,875 and £375,000 respectively. The LTIP awards are conditional on the achievement of a combined EPS/ROCE target described on page 55.

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 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. Nicholas Cadbury, Patrick Dempsey and Louise Smalley receive employer contributions, but following the introduction

of tax reforms in April 2011 limiting the tax allowable contribution, they receive the balance of their entitlements as a cash supplement. The executive directors received the following pension contributions and cash supplements during the year:

Director	Amount of pension contribution	Amount of cash supplement
Andy Harrison	n/a	£157,622
Nicholas Cadbury	£19,827	£14,279
Patrick Dempsey	£50,000	£58,826
Christopher Rogers	n/a	£121,961
Louise Smalley	£18,655	£5,575



Remuneration report – Audited section continued

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

At 28 February 2013 the directors held the following deferred shares under the Scheme:

	Year of award	Balance at 2 March 2012	Awarded	Lapsed	Vested	Balance at 28 February 2013	Release date	Market price at award p	Date award vested	Market price at vesting	Monetary value of vested award £
Andy Harrison	2011	18,281	—	—	—	18,281	01/03/2014	1787.4	—	—	—
	2012	16,618	—	—	—	16,618	01/03/2015	1687.0	—	—	—
	2013	—	19,484	—	—	19,484	01/03/2016	2554.0	—	—	—
		34,899	19,484	—	—	54,383					—
Nicholas Cadbury	2013	—	3,672	—	—	3,672	01/03/2016	2554.0	—	—	—
		—	3,672	—	—	3,672					—
Patrick Dempsey	2010	26,210	—	—	—	26,210	30/04/2013 ¹	1414.8	—	—	—
	2011	19,698	—	—	—	19,698	01/03/2014	1787.4	—	—	—
	2012	7,291	—	—	—	7,291	01/03/2015	1687.0	—	—	—
	2013	—	10,724	—	—	10,724	01/03/2016	2554.0	—	—	—
		53,199	10,724	—	—	63,923					—
Christopher Rogers	2010	29,579	—	—	—	29,579	30/04/2013 ¹	1414.8	—	—	—
	2011	25,316	—	—	—	25,316	01/03/2014	1787.4	—	—	—
	2012	11,689	—	—	—	11,689	01/03/2015	1687.0	—	—	—
	2013	—	14,963	—	—	14,963	01/03/2016	2554.0	—	—	—
		66,584	14,963	—	—	81,547					—
Louise Smalley	2010	13,686	—	—	—	13,686	30/04/2013 ¹	1414.8	—	—	—
	2011	11,393	—	—	—	11,393	01/03/2014	1787.4	—	—	—
	2012	5,302	—	—	—	5,302	01/03/2015	1687.0	—	—	—
	2013	—	7,201	—	—	7,201	01/03/2016	2554.0	—	—	—
		30,381	7,201	—	—	37,582					—

¹ Under the rules of the Scheme awards cannot vest during a close or prohibited period. The 2010 awards normal release date would be 1 March 2013. However, as this date was during a close period the awards will automatically vest on the next day on which dealings are permitted. It is anticipated that this will be 30 April 2013, the date on which the full-year results are released.

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



Remuneration report – Audited section continued

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:

	2 March 2012	Awarded	Lapsed	Exercised	28 February 2013	Conditional award granted	Performance period concludes	Market price at award p	Date vested award exercised	Price at exercise p	Monetary value of exercised award £
Andy Harrison	86,584	—	—	—	86,584	01/09/2010	28/02/2013	1414.8	—	—	—
	48,953	—	—	—	48,953	01/03/2011	28/02/2014	1787.4	—	—	—
	67,468 ¹	—	—	—	67,468	01/03/2011	28/02/2014	1787.4	—	—	—
	—	52,565	—	—	52,565	01/03/2012	28/02/2015	1687.0	—	—	—
	203,005	52,565	—	—	255,570						—
Nicholas Cadbury	—	16,527	—	—	16,527	01/03/2012	28/02/2015	1687.0	—	—	—
		—	16,527	—	16,527						—
Patrick Dempsey	54,458	—	—	54,458	—	01/03/2009	29/02/2012	734.5	17/05/2012	1850.49	1,007,740
	28,272	—	—	—	28,272	01/03/2010	28/02/2013	1414.8	—	—	—
	22,378	—	—	—	22,378	01/03/2011	28/02/2014	1787.4	—	—	—
	—	24,616	—	—	24,616	01/03/2012	28/02/2015	1687.0	—	—	—
	105,108	24,616	—	54,458	75,266						1,007,740
Christopher Rogers	60,612	—	—	—	60,612	01/03/2009	29/02/2012	734.5	—	—	—
	39,334	—	—	—	39,334	01/03/2010	28/02/2013	1414.8	—	—	—
	34,267	—	—	—	34,267	01/03/2011	28/02/2014	1787.4	—	—	—
	—	36,975	—	—	36,975	01/03/2012	28/02/2015	1687.0	—	—	—
	134,213	36,975	—	—	171,188						—
Louise Smalley	16,827	—	—	—	16,827	01/03/2009	29/02/2012	734.5	—	—	—
	8,736	—	—	—	8,736	01/03/2010	28/02/2013	1414.8	—	—	—
	7,606	—	—	—	7,606	01/03/2011	28/02/2014	1787.4	—	—	—
	—	14,746	—	—	14,746	01/03/2012	28/02/2015	1687.0	—	—	—
	33,169	14,746	—	—	47,915						—

The aggregate value of exercised awards was £1,007,740 (2011/12: £639,364). The awards made in 2010 will partially vest as shown on page 55, with 89.77% of each of those awards vesting.

¹ 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 retention of the same number of shares previously purchased by Andy. The performance conditions are in line with those for the general 2011 LTIP award, except that there is no vesting at median performance.



Remuneration report – Audited section continued

LTIP performance conditions – past awards

	Performance metrics	TSR condition	EPS condition
2009 award	50% TSR and 50% EPS.	TSR growth against selected FTSE 51–150 constituents – median (25% vests) to upper quartile (100% vests).	2012/13 EPS – less than 92p, nil vesting; 92p, 25% vests; 107p or more, 100% vests; and between 92p and 107p, pro-rating between 25% and 100% vesting applies.
2008, 2010 and 2011 awards	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).
2012 award	Based on EPS growth above RPI p.a. of 4% to 10% on a sliding scale with a one-third multiplier based on ROCE in 2014/15 of 12% to 16.7%. ROCE also acts as a hurdle.		

LTIP performance conditions – future awards

Details of the performance conditions for the awards to be made in 2013 can be found on page 55.

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 28 February 2013 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 p	Exercise date	Last exercise date
Andy Harrison	672	02/12/2011	1339.2	28/02/2015	31/07/2015
Total	672	(672 at 01/03/2012)			
Patrick Dempsey	1,076	03/12/2010	1414.0	29/02/2016	31/07/2016
Total	1,076	(1,076 at 01/03/2012)			
Christopher Rogers	1,076	03/12/2010	1414.0	29/02/2016	31/07/2016
Total	1,076	(1,076 at 01/03/2012)			
Louise Smalley	470	30/11/2012	1913.6	29/02/2016	31/07/2016
Total	470	(nil at 01/11/2012)			



Directors' report

The directors present their Report and Accounts for the year ended 28 February 2013

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 and two hotels in India. It also has a joint venture, which operates one hotel in Abu Dhabi and three hotels in Dubai. Costa operates coffee shops in 28 overseas markets through joint ventures in China 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 4 to 37. Details of the Company's key performance indicators can be found on pages 26 to 29.

Results and dividends

Group profit before tax and exceptional items	£335.7 million
Group profit before tax and after exceptional items	£355.3 million
Interim dividend paid on 10 January 2013	19.50p per share
Recommended final dividend	37.90p per share
Total dividend for the year	57.40p per share

Subject to approval at the Annual General Meeting (AGM), the final dividend will be payable on 12 July 2013 to the shareholders on the register at the close of business on 17 May 2013.

Board of Directors

The directors at the date of this report are listed on pages 40 and 41. All except Louise Smalley and Nicholas Cadbury served throughout the year. Louise Smalley joined the Board on 1 November 2012 and Nicholas Cadbury joined on 14 November 2012.

Details of the directors' service contracts are given in the remuneration report on page 58. None of the non-executive directors has a service contract.

Details of directors' training are given in the corporate governance report on page 43.

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 all directors will stand for annual re-election at each AGM.

The Company may, by special resolution, remove any directors before the expiration of his/her term of office.

Directors automatically stop being directors if:

- i. they give the Company a written notice of resignation;
- ii. they give the Company a written notice in which they offer to resign and the other directors decide to accept the offer;
- iii. all of the other directors (who must comprise at least three people) pass a resolution or sign a written notice requiring the director to resign;
- iv. they are or have been suffering from mental or physical ill health and the directors pass a resolution removing the director from office;
- v. 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;
- vi. a bankruptcy order is made against them or they make any arrangement or composition with their creditors generally;
- vii. they are prohibited from being a director under any applicable legislation; or
- viii. 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' report continued

Directors' share interests

	Held at 28/02/2013	Held at 01/03/2012
Anthony Habgood	50,797	50,797
Andy Harrison	191,106	191,106
Richard Baker	12,336	8,198
Wendy Becker	6,000	6,000
Nicholas Cadbury	600	— ¹
Ian Cheshire	307	300
Patrick Dempsey	24,957	24,957
Susan Hooper	800	—
Christopher Rogers	50,000	50,000
Simon Melliss	3,000	3,000
Louise Smalley	11,498	11,498 ¹
Susan Taylor Martin	500	—
Stephen Williams	9,691	9,440

¹ At date of appointment.

The share interests shown above include the non-beneficial interests of Anthony Habgood in 522 ordinary shares of 76 122/153p each.

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 27 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.



Directors' report continued

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 six 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 2013 AGM.

The Company did not purchase any of its own shares during the year. 13.8 million shares (representing 7.14% of the total called up share capital at the beginning of the year) are held as treasury shares (1 March 2012: 14.1 million). During the course of the year, the Company transferred 320,000 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 schemes 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 (the percentages shown are the percentages at the time of the disclosure and have not been re-calculated based on the issued share capital at the year-end):

	Number of shares	% of issued share capital
BlackRock	17,184,930	9.73
Capital Group Companies, Inc.	10,746,506	5.99
Schroders PLC	10,531,421	5.35
Standard Life Investments	7,233,278	4.08
Legal & General	6,960,723	3.97

Since the end of the financial year the Company received a notification from Capital Group Companies, Inc. that they had increased their holding to 10,825,963 shares (6.04%) of the issued share capital. No further 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 29 April 2013.

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 under any circumstances (including in relation to training, career development and promotion) against current or prospective employees because of any disability. Fair and full 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 into 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 Winning Teams sections on pages 12 and 20.

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 2006 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 21 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.



Directors' report continued

Financial instruments

Information on the Company's use of financial instruments, financial risk management objectives and policies and exposure is given in Note 24 to the consolidated financial statements.

Supplier payment policy

The Company has no trade creditors (1 March 2012: 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 28 February 2013 (1 March 2012: 47 days) based on the trade creditors at that date and purchases made during the year.

Charitable and political donations

During the year, the Company made a direct charitable donation of £111,480 to Great Ormond Street Hospital Children's Charity and a further donation of £100,000 to the Costa Foundation. Costa Limited, a subsidiary of the Company, also made a direct donation of £929,871 to the Costa Foundation. In total £2.3 million was raised in the Group for its two designated charities. 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 Great Ormond Street Hospital Children's Charity and the Costa Foundation can be found at the back of this document.

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 reappointment will be put to shareholders at the 2013 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 any 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 has 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 affect its future development, performance and position are set out in the business review on pages 4 to 37. The financial position of the Company, its cash flows, net debt and borrowing facilities and the maturity of those facilities are set out in the Finance Director's report on pages 30 to 33. In addition there are further details in the financial statements on the Group's financial risk management, objectives and policies (Note 24) and on financial instruments (Note 25).

A combination of the strong operating cash flows generated by the business and the significant headroom on its credit facilities supports 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 2pm on 18 June 2013 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 for those who elected to receive documents electronically. At the 2013 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 29 April 2013 and signed.

Simon Barratt

General Counsel and Company Secretary

Registered Office:

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

Registered in England: No. 4120344

The directors' report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and any liability of the directors in connection with this report shall be subject to the limitations and restrictions provided by such law. The directors' report includes the business review on pages 4 to 37 and this report on pages 64 to 67.

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.





Consolidated accounts 2012/13

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Directors' responsibility for the consolidated financial statements

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 consolidated 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 consolidated 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 consolidated financial statements comply with IFRS subject to any material departures being disclosed and explained in the consolidated 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 consolidated 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 consolidated 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
Chief Executive

Nicholas Cadbury
Finance Director



Independent auditor's report to the members of Whitbread PLC

Independent auditor's report to the members of Whitbread PLC

We have audited the consolidated financial statements of Whitbread PLC for the year ended 28 February 2013 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 33. 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 of auditor

As explained more fully in the Statement of directors' responsibilities on page 70, the directors are responsible for the preparation of the consolidated 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 consolidated 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 consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated 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 consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on consolidated financial statements

In our opinion the consolidated financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 February 2013 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 consolidated financial statements are prepared is consistent with the consolidated 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 67, in relation to going concern;
- the part of the Corporate Governance Statement 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 28 February 2013 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

29 April 2013



Consolidated income statement

Year ended 28 February 2013

	Notes	Year to 28 February 2013 £m	Year to 1 March 2012 £m
Revenue	3, 4	2,030.0	1,778.0
Operating costs		(1,644.1)	(1,432.3)
Operating profit	5	385.9	345.7
Share of profit/(loss) from joint ventures	15	0.5	(0.7)
Share of profit from associate	16	0.8	0.9
Operating profit of the Group, joint ventures and associate	4	387.2	345.9
Finance costs	8	(43.5)	(43.4)
Finance revenue	8	11.6	3.3
Profit before tax		355.3	305.8
Analysed as:			
Underlying profit before tax		356.5	320.1
Amortisation of acquired intangible assets	6	(2.8)	(2.6)
IAS 19 income statement charge for pension finance cost	6	(18.0)	(14.0)
Profit before tax and exceptional items		335.7	303.5
Exceptional items	6	19.6	2.3
Profit before tax		355.3	305.8
Underlying tax expense		(91.5)	(84.4)
Exceptional tax and tax on non GAAP adjustments	6	37.5	44.6
Tax expense	9	(54.0)	(39.8)
Profit for the year		301.3	266.0
Attributable to:			
Parent shareholders		303.5	267.3
Non-controlling interest		(2.2)	(1.3)
		301.3	266.0

Earnings per share

(Note 10)

	Year to 28 February 2013 p	Year to 1 March 2012 p
Earnings per share		
Basic	170.89	151.53
Diluted	169.46	151.19
Earnings per share before exceptional items		
Basic	141.55	127.38
Diluted	140.37	127.09
Underlying earnings per share		
Basic	150.45	134.35
Diluted	149.19	134.05



Consolidated statement of comprehensive income Year ended 28 February 2013

	Notes	Year to 28 February 2013 £m	Year to 1 March 2012 £m
Profit for the year		301.3	266.0
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme	31	29.3	(192.1)
Current tax on pensions	9	9.0	22.2
Deferred tax on pensions	9	(16.1)	27.9
Deferred tax: change in rate of corporation tax on pensions	9	(8.5)	(8.2)
		13.7	(150.2)
Items that may be reclassified subsequently to profit or loss:			
Net gain/(loss) on cash flow hedges		8.3	(1.0)
Deferred tax on cash flow hedges	9	(2.0)	0.3
Deferred tax: change in rate of corporation tax on cash flow hedges	9	(0.5)	(0.6)
		5.8	(1.3)
Exchange differences on translation of foreign operations		1.0	(0.6)
Other comprehensive income/(loss) for the year, net of tax		20.5	(152.1)
Total comprehensive income for the year, net of tax		321.8	113.9
Attributable to:			
Parent shareholders		324.0	115.2
Non-controlling interest		(2.2)	(1.3)
		321.8	113.9



Consolidated statement of changes in equity

Year ended 28 February 2013

	Share capital (Note 27) £m	Share premium (Note 28) £m	Capital redemption reserve (Note 28) £m	Retained earnings (Note 28) £m	Currency translation reserve (Note 28) £m	Treasury reserve (Note 28) £m	Merger reserve (Note 28) £m	Hedging reserve (Note 28) £m	Total £m	Non-controlling interest £m	Total equity £m
At 3 March 2011	147.0	50.8	12.3	3,128.8	4.3	(220.9)	(1,855.0)	(27.1)	1,240.2	1.8	1,242.0
Profit for the year	—	—	—	267.3	—	—	—	—	267.3	(1.3)	266.0
Other comprehensive income	—	—	—	(150.5)	(0.6)	—	—	(1.0)	(152.1)	—	(152.1)
Total comprehensive income	—	—	—	116.8	(0.6)	—	—	(1.0)	115.2	(1.3)	113.9
Ordinary shares issued	0.4	3.0	—	—	—	—	—	—	3.4	—	3.4
Cost of ESOT shares purchased	—	—	—	—	—	(5.2)	—	—	(5.2)	—	(5.2)
Loss on ESOT shares issued	—	—	—	(5.8)	—	5.8	—	—	—	—	—
Accrued share-based payments	—	—	—	7.9	—	—	—	—	7.9	—	7.9
Tax on share-based payments	—	—	—	1.0	—	—	—	—	1.0	—	1.0
Rate change on historical revaluation	—	—	—	1.3	—	—	—	—	1.3	—	1.3
Equity dividends	—	—	—	(89.6)	—	—	—	—	(89.6)	—	(89.6)
Scrip dividends	0.1	(0.1)	—	2.6	—	—	—	—	2.6	—	2.6
Additions	—	—	—	—	—	—	—	—	—	5.9	5.9
At 1 March 2012	147.5	53.7	12.3	3,163.0	3.7	(220.3)	(1,855.0)	(28.1)	1,276.8	6.4	1,283.2
Profit for the year	—	—	—	303.5	—	—	—	—	303.5	(2.2)	301.3
Other comprehensive income	—	—	—	11.2	1.0	—	—	8.3	20.5	—	20.5
Total comprehensive income	—	—	—	314.7	1.0	—	—	8.3	324.0	(2.2)	321.8
Ordinary shares issued	0.2	2.0	—	—	—	—	—	—	2.2	—	2.2
Cost of ESOT shares purchased	—	—	—	—	—	(3.2)	—	—	(3.2)	—	(3.2)
Loss on ESOT shares issued	—	—	—	(3.6)	—	3.6	—	—	—	—	—
Accrued share-based payments	—	—	—	9.2	—	—	—	—	9.2	—	9.2
Tax on share-based payments	—	—	—	2.2	—	—	—	—	2.2	—	2.2
Rate change on historical revaluation	—	—	—	1.1	—	—	—	—	1.1	—	1.1
Equity dividends	—	—	—	(94.5)	—	—	—	—	(94.5)	—	(94.5)
Scrip dividends	0.6	(0.6)	—	16.7	—	—	—	—	16.7	—	16.7
Additions	—	—	—	—	—	—	—	—	—	6.6	6.6
At 28 February 2013	148.3	55.1	12.3	3,408.8	4.7	(219.9)	(1,855.0)	(19.8)	1,534.5	10.8	1,545.3



Consolidated balance sheet

At 28 February 2013

	Notes	28 February 2013 £m	1 March 2012 £m
ASSETS			
Non-current assets			
Intangible assets	12	215.4	206.6
Property, plant and equipment	13	2,748.9	2,580.5
Investment in joint ventures	15	24.0	18.7
Investment in associate	16	1.7	1.6
Derivative financial instruments	25	7.1	—
Trade and other receivables	19	5.3	3.6
Other financial assets	17	—	—
		3,002.4	2,811.0
Current assets			
Inventories	18	26.5	23.1
Trade and other receivables	19	102.1	85.0
Cash and cash equivalents	20	40.8	40.3
Derivative financial instruments	25	1.4	—
		170.8	148.4
Assets held for sale	13	1.5	0.6
Total assets		3,174.7	2,960.0
LIABILITIES			
Current liabilities			
Financial liabilities	21	9.0	14.2
Provisions	23	10.3	10.7
Derivative financial instruments	25	4.6	6.6
Income tax liabilities	9	37.7	15.4
Trade and other payables	26	347.6	321.3
		409.2	368.2
Non-current liabilities			
Financial liabilities	21	502.9	530.4
Provisions	23	32.6	37.1
Derivative financial instruments	25	18.7	20.1
Deferred income tax liabilities	9	106.7	105.9
Pension liability	31	541.7	598.7
Trade and other payables	26	17.6	16.4
		1,220.2	1,308.6
Total liabilities		1,629.4	1,676.8
Net assets		1,545.3	1,283.2
Equity			
Share capital	27	148.3	147.5
Share premium	28	55.1	53.7
Capital redemption reserve	28	12.3	12.3
Retained earnings	28	3,408.8	3,163.0
Currency translation reserve	28	4.7	3.7
Other reserves	28	(2,094.7)	(2,103.4)
Equity attributable to equity holders of the parent		1,534.5	1,276.8
Non-controlling interest		10.8	6.4
Total equity		1,545.3	1,283.2

Andy Harrison
Chief Executive

Nicholas Cadbury
Finance Director

29 April 2013



Consolidated cash flow statement

Year ended 28 February 2013

	Notes	Year to 28 February 2013 £m	Year to 1 March 2012 £m
Profit for the year		301.3	266.0
Adjustments for:			
Taxation charged on total operations	9	54.0	39.8
Net finance cost	8	31.9	40.1
Total (income)/loss from joint ventures	15	(0.5)	0.7
Total income from associate	16	(0.8)	(0.9)
Profit on disposal of property, plant and equipment and property reversions	6	(18.6)	(14.6)
Loss on investment and disposal of business	6	3.3	—
Depreciation and amortisation	12, 13	128.4	109.7
Impairment of financial assets, property, plant and equipment and intangibles	12, 13, 17	5.4	11.3
Share-based payments	30	9.2	7.9
Other non-cash items		1.0	7.6
Cash generated from operations before working capital changes		514.6	467.6
Increase in inventories		(3.3)	(4.7)
Increase in trade and other receivables		(17.4)	(0.7)
Increase in trade and other payables		38.4	25.3
Payments against provisions	23	(6.3)	(9.2)
Pension payments	31	(45.7)	(95.4)
Cash generated from operations		480.3	382.9
Interest paid		(26.6)	(29.4)
Corporation taxes paid		(46.7)	(31.3)
Net cash flows from operating activities		407.0	322.2
Cash flows from investing activities			
Purchase of property, plant and equipment		(329.3)	(305.7)
Purchase of intangible assets	12	(14.3)	(2.2)
Proceeds from disposal of property, plant and equipment		51.0	58.7
Business combinations, net of cash acquired	12	(0.7)	—
Sale of business		(0.2)	—
Capital contributions and loans to joint ventures		(4.8)	(1.6)
Dividends from associate		0.7	0.7
Interest received		0.4	2.6
Net cash flows from investing activities		(297.2)	(247.5)
Cash flows from financing activities			
Proceeds from issue of share capital		2.2	3.4
Cost of purchasing ESOT shares		(3.2)	(5.2)
Capital contributions from non-controlling interests		5.9	5.5
(Decrease)/increase in short-term borrowings		(4.5)	13.5
Proceeds from long-term borrowings		—	156.4
Repayments of long-term borrowings		(32.0)	(150.6)
Issue costs of long-term borrowings		—	(5.4)
Dividends paid	11	(77.8)	(87.0)
Net cash flows used in financing activities		(109.4)	(69.4)
Net increase in cash and cash equivalents		0.4	5.3
Opening cash and cash equivalents		39.6	34.2
Foreign exchange differences		0.8	0.1
Closing cash and cash equivalents	20	40.8	39.6
Reconciliation to cash and cash equivalents in the balance sheet			
Cash and cash equivalents shown above	20	40.8	39.6
Add back overdrafts		—	0.7
Cash and cash equivalents shown within current assets on the balance sheet		40.8	40.3



Notes to the consolidated financial statements At 28 February 2013

1 Authorisation of consolidated financial statements

The consolidated financial statements of Whitbread PLC for the year ended 28 February 2013 were authorised for issue by the Board of Directors on 29 April 2013. 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 consolidated financial statements for the year ended 1 March 2012, except for the change in presentation of the Consolidated income statement noted below and the adoption of the new Standards and Interpretations that are applicable for the year ended 28 February 2013.

Change in presentation

The categorisation of expenses within the consolidated income statement have been amended to combine the previously disclosed cost of sales, distribution costs and administrative expenses into one expense line above operating profit called operating costs. The directors believe that the revised consolidated income statement presentation is more relevant to the nature of the business and is consistent with the practice of others within the industry. Prior year comparatives have been re-presented accordingly to provide a consistent comparison. Cost of sales of £377.8m for the year ended 28 February 2013 and £288.4m for the year ended 1 March 2012, distribution costs of £1,059.4m for the year ended 28 February 2013 and £969.2m for the year ended 1 March 2012 and administrative expenses of £206.9m for the year ended 28 February 2013 and £174.7m for the year ended 1 March 2012 have been amalgamated into operating costs.

Amendment to IFRS 7 Financial instruments: Disclosures – on transfer of financial assets

These amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The adoption of this interpretation has had no effect on the consolidated 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 2000/01, 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.

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 15 years;
- IT software and technology are amortised over periods of three to ten years;
- the asset in relation to acquired customer relationships is amortised over 15 years; and
- operating rights agreements are amortised over the life of the contract.

The carrying values are reviewed for impairment if events or changes in circumstances indicate that they may not be recoverable.



Notes to the consolidated financial statements At 28 February 2013

2 Accounting policies continued

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; and
- 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 operating costs.

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 the cost to sell of goodwill and intangible assets exceeds their carrying amount, the recoverable amount is determined from value in use calculations. An impairment is then made to reduce the carrying amount to the higher of the fair value less cost to sell and the value in use.

Property, plant and equipment

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

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

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

Investments in joint ventures and associates

The Group assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication of impairment exists, the carrying amount of the investment is compared with its recoverable amount, being the higher of its fair value less costs to sell and value in use. Where the carrying amount exceeds the recoverable amount, the investment is written down to its recoverable amount.



Notes to the consolidated financial statements

At 28 February 2013

2 Accounting policies continued

Assets held for sale

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

Inventories

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

Provisions

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

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

Non GAAP performance measure

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

Exceptional items

The Group includes in the non GAAP performance measure 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.

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

Revenue is recognised when the significant risks and rewards of the goods or services provided have transferred to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue is measured at the fair value of the consideration receivable from the sale of goods and services to third parties after deducting discounts, allowances for customer loyalty and other promotional activities. Revenue includes duties which the Group pays as principal, but excludes amounts collected on behalf of other parties, such as value added tax. All material sales between Group businesses are eliminated.

Revenue of the Group comprises the following streams:

Sale of goods

Revenue from the sale of food, beverages and merchandise is recognised at the point of sale, with the exception of wholesale transactions which are recognised on delivery.

Rendering of services

Revenue from room sales and other guest services is recognised when rooms are occupied and as services are provided.

Franchise fees

Revenue from fees received in connection with the franchise of the Group's brand names is recognised when earned.



Notes to the consolidated financial statements

At 28 February 2013

2 Accounting policies continued

Customer loyalty programmes

Where award credits are granted as part of a sales transaction, a portion of revenue equal to the fair value of the reward points earned is deferred until redemption. The fair value of points awarded is determined with reference to the discount received upon redemption and the level of redemption.

Finance revenue

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

Leases

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

Borrowing costs

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

Retirement benefits

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

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

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

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

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 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. Where an equity-settled award is forfeited the related expense recognised to date is reversed.

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. Where material, 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.



Notes to the consolidated financial statements

At 28 February 2013

2 Accounting policies continued

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.

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 or 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 and currency 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.



Notes to the consolidated financial statements At 28 February 2013

2 Accounting policies continued

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

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

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

Borrowings

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

Significant accounting judgements and estimates

Key assumptions concerning the future, and other key sources of estimation uncertainty 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 cash flow approach. Note 14 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 23 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 31 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, ratified by the EU and are relevant for the Group, become effective after the current year-end and have not been early adopted by the Group:

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 re-wording. The impact on the Group is on disclosure in the consolidated 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 and the reclassification of the administration costs that are not related to asset management to operating costs. The amendment becomes effective for annual periods beginning on or after 1 January 2013. If the Group had adopted IAS 19 revised as at 28 February 2013, net pension finance costs for the year would have been higher by £9.0m and operating costs higher by £3.1m.



Notes to the consolidated financial statements

At 28 February 2013

2 Accounting policies continued

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 consolidated 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. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9: Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. 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 not have an impact on classification and measurement of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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 consolidated financial statements only, where summarised information may need to be provided. The amendment becomes effective for annual periods beginning on or after 1 January 2014¹.

Whilst the following standards and interpretations are relevant to the Group, they have been assessed as having no financial impact or additional disclosure requirements at this time:

- IAS 1 Financial Statement Presentation (Amendment);
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011);
- Amendment to IAS 32 Financial Instruments Presentation;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements; and
- IFRS 13 Fair Value Measurement.

¹ As the accounts have been prepared in accordance with IFRSs as adopted by the European Union, the adoption date is as per the EU, not the IASB.



Notes to the consolidated financial statements At 28 February 2013

3 Revenue

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

	2012/13 £m	2011/12 £m
Rendering of services	853.8	755.1
Franchise fees	22.2	21.0
Sale of goods	1,154.0	1,001.9
Revenue	2,030.0	1,778.0

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; and
- 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. 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.



Notes to the consolidated financial statements

At 28 February 2013

4 Segment information continued

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 28 February 2013 and 1 March 2012.

Year ended 28 February 2013	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Revenue				
Revenue from external customers	1,360.1	669.9	—	2,030.0
Inter-segment revenue	—	2.5	(2.5)	—
Total revenue	1,360.1	672.4	(2.5)	2,030.0
Underlying operating profit	313.1	90.1	(23.1)	380.1
Amortisation of acquired intangibles	—	(2.8)	—	(2.8)
Operating profit before exceptional items	313.1	87.3	(23.1)	377.3
Exceptional items:				
Net gain/(loss) on disposal of property, plant and equipment and property reversions	19.5	(1.1)	0.2	18.6
Impairment	(13.6)	(1.7)	—	(15.3)
Impairment reversal	9.7	0.2	—	9.9
Loss on investment	—	(1.4)	—	(1.4)
Sale of business	—	(1.9)	—	(1.9)
Operating profit of the Group, joint ventures and associate	328.7	81.4	(22.9)	387.2
Net finance costs				(31.9)
Profit before tax				355.3
Tax expense				(54.0)
Profit for the year				301.3
Assets and liabilities				
Segment assets	2,755.6	329.0	—	3,084.6
Unallocated assets	—	—	90.1	90.1
Total assets	2,755.6	329.0	90.1	3,174.7
Segment liabilities	(233.1)	(69.1)	—	(302.2)
Unallocated liabilities	—	—	(1,327.2)	(1,327.2)
Total liabilities	(233.1)	(69.1)	(1,327.2)	(1,629.4)
Net assets	2,522.5	259.9	(1,237.1)	1,545.3
Other segment information				
Share of profit from associate	0.8	—	—	0.8
Share of profit/(loss) from joint ventures	0.9	(0.4)	—	0.5
Minimum lease payments attributable to the current period	69.7	72.0	0.2	141.9
Capital expenditure:				
Property, plant and equipment — cash basis	252.6	76.7	—	329.3
Property, plant and equipment — accruals basis	247.2	79.6	—	326.8
Intangible assets	8.7	3.4	2.2	14.3
Depreciation	(81.9)	(38.4)	—	(120.3)
Amortisation	(4.6)	(3.5)	—	(8.1)



Notes to the consolidated financial statements

At 28 February 2013

4 Segment information continued

Year ended 1 March 2012	Hotels & Restaurants £m	Costa £m	Unallocated and elimination £m	Total operations £m
Revenue				
Revenue from external customers	1,239.3	538.7	—	1,778.0
Inter-segment revenue	—	3.2	(3.2)	—
Total revenue	1,239.3	541.9	(3.2)	1,778.0
Underlying operating profit	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 in joint ventures	—	(0.2)	—	(0.2)
Loss on 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 associate	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				266.0
Assets and liabilities				
Segment assets	2,603.0	279.2	—	2,882.2
Unallocated assets	—	—	77.8	77.8
Total assets	2,603.0	279.2	77.8	2,960.0
Segment liabilities	(213.4)	(63.9)	—	(277.3)
Unallocated liabilities	—	—	(1,399.5)	(1,399.5)
Total liabilities	(213.4)	(63.9)	(1,399.5)	(1,676.8)
Net assets	2,389.6	215.3	(1,321.7)	1,283.2
Other segment information				
Share of profit from associate	0.9	—	—	0.9
Share of loss from joint ventures	—	(0.7)	—	(0.7)
Minimum lease payments attributable to the current period	51.4	56.5	0.4	108.3
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)

Revenues from external customers are split geographically as follows:	2012/13 £m	2011/12 £m
United Kingdom ¹	1,965.8	1,729.4
Non United Kingdom	64.2	48.6
	2,030.0	1,778.0

¹ 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 ² are split geographically as follows:	2013 £m	2012 £m
United Kingdom	2,931.6	2,769.2
Non United Kingdom	63.7	41.8
	2,995.3	2,811.0

² Non-current assets exclude derivative financial instruments.



Notes to the consolidated financial statements

At 28 February 2013

5 Group operating profit

This is stated after charging/(crediting):

	2012/13 £m	2011/12 £m
Property operating lease payments		
Minimum lease payments recognised as an operating lease expense:		
Minimum lease payments attributable to the current period	141.9	108.3
IAS 17 – impact of future minimum rental uplifts	(1.5)	2.8
Contingent rents	10.0	8.1
Total property rent	150.4	119.2
Plant and machinery operating lease payments	9.2	8.6
Operating lease payments	159.6	127.8
Operating lease payments — sublease receipts	(2.7)	(1.4)
Amortisation of intangible assets (Note 12)	8.1	4.7
Depreciation of property, plant and equipment (Note 13)	120.3	105.0
Cost of inventories recognised as an expense	269.3	233.4
Employee benefits expense (Note 7)	541.0	475.9
Net foreign exchange differences	(0.5)	0.2
Principal auditor's fees		
Audit of the consolidated financial statements	0.3	0.3
Audit of subsidiaries	0.2	0.2
Total audit fees	0.5	0.5
Taxation advisory services	—	0.1
Total fees	0.5	0.6

6 Exceptional items and other non GAAP adjustments

	2012/13 £m	2011/12 £m
Exceptional items before tax and interest:		
Operating costs		
Net gain on disposal of property, plant and equipment and property reversions ¹	18.6	14.6
Impairment of property, plant and equipment (Note 14)	(15.3)	(13.5)
Impairment reversal (Note 14)	9.9	3.3
Loss on investments ²	(1.4)	(0.9)
Impairment of other intangibles (Note 12)	—	(0.2)
Sale of businesses ³	(1.9)	—
	9.9	3.3
Net loss on disposal of fixed assets in joint ventures	—	(0.2)
	9.9	3.1
Exceptional interest:		
Interest on exceptional tax ⁴	10.8	—
Unwinding of discount rate on provisions ⁵	(1.1)	(0.8)
	9.7	(0.8)
Exceptional items before tax	19.6	2.3
Other non GAAP adjustments made to underlying profit before tax to arrive at reported profit before tax:		
Amortisation of acquired intangibles (Note 12)	(2.8)	(2.6)
IAS 19 income statement charge for pension finance cost (Note 31)	(18.0)	(14.0)
	(20.8)	(16.6)
Items included in reported profit before tax, but excluded in arriving at underlying profit before tax	(1.2)	(14.3)



Notes to the consolidated financial statements

At 28 February 2013

6 Exceptional items and other non GAAP adjustments continued

Tax adjustments included in reported profit after tax, but excluded in arriving at underlying profit after tax:

	2012/13 £m	2011/12 £m
Tax on continuing exceptional items	(1.3)	(2.5)
Exceptional tax items — capital allowances claims ⁶	—	16.6
Exceptional tax items — tax base cost ⁷	3.5	9.2
Exceptional tax items — disputed claims ⁴	13.5	—
Deferred tax relating to UK tax rate change	16.8	17.0
Tax on non GAAP adjustments	5.0	4.3
	37.5	44.6

1 In 2012/13, a net gain of £18.6m was recognised on disposals of property, plant and equipment, the majority of which relates to the sale and leaseback agreement for seven properties. In 2011/12, a net gain of £25.6m was recognised on disposals of property, plant and equipment, the majority of which related to a sale and leaseback agreement for seven properties. In addition, a provision was raised in relation to properties that reverted to Whitbread following difficulties with Southern Cross and a further requirement for a provision on the onerous contract portfolio.

2 In 2012/13, this is the net loss on the sale of the joint venture in Rosworth Investments to the joint venture partner. In 2011/12, there was an impairment of an investment in a German hotel (Note 17).

3 During the year Coffeeheaven Hungary was closed and subsequently liquidated. The costs incurred in this process have been classed as loss on disposal of business.

4 This is the partial release of a provision, of £13.5m, for an item which had been disputed by HMRC but has now been agreed. Interest which had been accrued for the late payment, amounting to £10.8m, has also been released.

5 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.

6 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.

7 Reduction in deferred tax liability for differences between the tax deductible cost and accounts' residual value of assets.

7 Employee benefits expense

	2012/13 £m	2011/12 £m
Wages and salaries	502.4	441.8
Social security costs	33.7	29.7
Pension costs	4.9	4.4
	541.0	475.9

Included in wages and salaries is a share-based payments expense of £9.5m (2011/12: £8.0m), which arises from transactions accounted for as equity-settled and cash-settled share-based payments.

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

	2012/13 Number	2011/12 Number
Hotels & Restaurants	23,628	22,235
Costa	10,031	8,196
Unallocated	57	53
Total operations	33,716	30,484

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

Details of directors' emoluments are disclosed in the remuneration report on pages 49 to 63.



Notes to the consolidated financial statements

At 28 February 2013

8 Finance (costs)/revenue

	2012/13 £m	2011/12 £m
Finance costs		
Bank loans and overdrafts	(26.5)	(31.5)
Other loans	(0.6)	(0.2)
Interest capitalised	2.7	3.1
	(24.4)	(28.6)
Net pension finance cost (Note 31)	(18.0)	(14.0)
Finance costs before exceptional items	(42.4)	(42.6)
Exceptional finance costs		
Unwinding of discount rate on provisions (Note 23)	(1.1)	(0.8)
Total finance costs	(43.5)	(43.4)
 Finance revenue		
Bank interest receivable	0.1	0.4
Other interest receivable	0.3	2.2
	0.4	2.6
Impact of ineffective portion of cash flow and fair value hedges	0.4	0.7
Finance revenue before exceptional items	0.8	3.3
Exceptional finance revenue	10.8	—
Total finance revenue	11.6	3.3

9 Taxation

	2012/13 £m	2011/12 £m
Consolidated income statement		
Current tax:		
Current tax expense	92.1	79.1
Adjustments in respect of current tax of previous periods	(15.0)	(22.9)
	77.1	56.2
Deferred tax:		
Origination and reversal of temporary differences	(3.8)	6.6
Adjustments in respect of previous periods	(2.5)	(6.0)
Change in UK tax rate to 23% (2011/12: 25%)	(16.8)	(17.0)
	(23.1)	(16.4)
Tax reported in the Consolidated income statement	54.0	39.8
 Consolidated statement of comprehensive income		
Current tax:		
Pensions	(9.0)	(22.2)
Deferred tax:		
Cash flow hedges	2.0	(0.3)
Pensions	16.1	(27.9)
Change in UK tax rate to 23% (2011/12: 25%) — pensions	8.5	8.2
Change in UK tax rate to 23% (2011/12: 25%) — cash flow hedges	0.5	0.6
Tax reported in other comprehensive income	18.1	(41.6)



Notes to the consolidated financial statements

At 28 February 2013

9 Taxation continued

A reconciliation of the tax charge applicable to underlying profit before tax and profit before tax at the statutory tax rate to the actual tax charge at the Group's effective tax rate for the years ended 28 February 2013 and 1 March 2012 respectively is as follows:

	2012/13	2011/12		
	Tax on underlying profit £m	Tax on profit £m	Tax on underlying profit £m	Tax on profit £m
Profit before tax as reported in the Consolidated income statement	356.5	355.3	320.1	305.8
Tax at current UK tax rate of 24.17% (2011/12: 26.17%)	86.2	85.9	83.8	80.0
Effect of different tax rates and unrecognised losses in overseas companies	2.9	2.9	2.2	3.0
Effect of joint ventures and associate	(0.3)	(1.2)	(0.1)	(0.4)
Expenditure not allowable	3.2	0.7	1.6	3.1
Adjustments to tax expense in respect of previous years	(1.5)	(15.0)	(6.3)	(22.9)
Adjustments to deferred tax expense in respect of previous years	1.0	(2.5)	3.2	(6.0)
Impact of change of tax rate on deferred tax balance	—	(16.8)	—	(17.0)
Tax expense reported in the Consolidated income statement	91.5	54.0	84.4	39.8

The corporation tax balance is a liability of £37.7m (2012: liability of £15.4m)

Deferred tax

Deferred tax relates to the following:

	Consolidated balance sheet		Consolidated income statement	
	2013 £m	2012 £m	2012/13 £m	2011/12 £m
Deferred tax liabilities				
Accelerated capital allowances	57.8	62.8	(4.9)	(41.8)
Rolled over gains and property revaluations	146.8	163.3	(15.3)	26.4
Gross deferred tax liabilities	204.6	226.1		
Deferred tax assets				
Pensions	(92.2)	(114.4)	(2.3)	(1.1)
Other	(5.7)	(5.8)	(0.6)	0.1
Gross deferred tax assets	(97.9)	(120.2)		
Deferred tax expense			(23.1)	(16.4)
Net deferred tax liability	106.7	105.9		

Total deferred tax liabilities released as a result of disposals during the year was £0.2m (2012: £0.6m).

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 assets. If the Group were to recognise these deferred tax assets in their entirety, profits would increase by £6.8m (2012: £5.1m).

The Group considers that 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 £0.7m (2012: £0.8m).

Factors affecting the tax charge for future years

The Finance Act 2012 reduced the main rate of UK corporation tax to 24% from 1 April 2012 and to 23% from 1 April 2013. The effect of the new rate is to reduce the deferred tax provision by a net £8.9m, comprising a credit of £16.8m to the Consolidated income statement, a charge of £9.0m to the Consolidated statement of comprehensive income, and a reserves movement of £1.1m.

In his budget of 20 March 2013, the Chancellor of the Exchequer confirmed the planned additional reduction in the rate of UK corporation tax to 21% from 1 April 2014 and announced a further reduction to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and consequently are not included in these consolidated financial statements. The effect of these proposed reductions would be to reduce the net deferred tax liability by £12.3m.



Notes to the consolidated financial statements At 28 February 2013

10 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 average share price for the year is lower than the option price the options become anti-dilutive and are excluded from the calculation. The number of such options was nil (2012: nil).

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

	2012/13 million	2011/12 million
Basic weighted average number of ordinary shares	177.6	176.4
Effect of dilution — share options	1.5	0.4
Diluted weighted average number of ordinary shares	179.1	176.8

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 193.0m less 13.8m treasury shares held by Whitbread PLC and 1.1m held by the ESOT (2012: 192.0m less 14.1m 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:

	2012/13 £m	2011/12 £m
Profit for the year attributable to parent shareholders	303.5	267.3
Exceptional items — gross	(19.6)	(2.3)
Exceptional items — taxation	(32.5)	(40.3)
Profit for the year before exceptional items attributable to parent shareholders	251.4	224.7
Non GAAP adjustments — gross	20.8	16.6
Non GAAP adjustments — taxation	(5.0)	(4.3)
Underlying profit for the year attributable to parent shareholders	267.2	237.0

	2012/13 pence	2011/12 pence
Basic on profit for the year	170.89	151.53
Exceptional items — gross	(11.04)	(1.30)
Exceptional items — taxation	(18.30)	(22.85)
Basic on profit before exceptional items for the year	141.55	127.38
Non GAAP adjustments — gross	11.71	9.41
Non GAAP adjustments — taxation	(2.81)	(2.44)
Basic on underlying profit for the year	150.45	134.35
Diluted on profit for the year	169.46	151.19
Diluted on profit before exceptional items for the year	140.37	127.09
Diluted on underlying profit for the year	149.19	134.05



Notes to the consolidated financial statements

At 28 February 2013

11 Dividends paid and proposed

	2012/13	2011/12		
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year	33.75	59.8	33.25	58.6
Settled via scrip issue (Note 27)	(10.9)			(1.5)
Paid in the year		48.9		57.1
Interim dividend for the current year	19.50	34.7	17.50	31.0
Settled via scrip issue (Note 27)	(5.8)			(1.1)
Paid in the year		28.9		29.9
Total equity dividends paid in the year		77.8		87.0
Dividends on other shares:				
B share dividend	1.28	—	1.18	—
C share dividend	1.66	—	1.28	—
	—		—	—
Total dividends paid		77.8		87.0
Proposed for approval at Annual General Meeting:				
Equity dividends on ordinary shares:				
Final dividend for the current year		37.90	67.5	33.75
				59.7

12 Intangible assets

	Goodwill £m	Brand £m	Customer relationships £m	IT software and technology £m	Other £m	Total £m
Cost						
At 3 March 2011	176.8	5.6	5.9	51.7	2.9	242.9
Additions	—	—	—	0.9	1.3	2.2
Transfers	—	—	—	12.3	—	12.3
At 1 March 2012	176.8	5.6	5.9	64.9	4.2	257.4
Additions	0.7	—	—	11.7	2.6	15.0
Assets written off	—	(0.5)	—	(30.0)	(1.0)	(31.5)
Transfers	—	—	—	1.8	—	1.8
Foreign currency adjustment	0.1	—	—	—	—	0.1
At 28 February 2013	177.6	5.1	5.9	48.4	5.8	242.8
Amortisation and impairment						
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	—	(1.2)	(0.4)	(47.2)	(2.0)	(50.8)
Amortisation during the year	—	(0.3)	(0.6)	(6.9)	(0.3)	(8.1)
Amortisation on assets written off	—	0.5	—	30.0	1.0	31.5
At 28 February 2013	—	(1.0)	(1.0)	(24.1)	(1.3)	(27.4)
Net book value at 28 February 2013	177.6	4.1	4.9	24.3	4.5	215.4
Net book value at 1 March 2012	176.8	4.4	5.5	17.7	2.2	206.6

Included in the amortisation for the year is the amortisation relating to acquired intangibles amounting to £2.8m (2011/12: £2.6m).



Notes to the consolidated financial statements

At 28 February 2013

12 Intangible assets continued

The carrying amount of goodwill allocated by segment is presented below:

	2013 £m	2012 £m
Hotels & Restaurants	112.6	112.6
Costa	65.0	64.2
Total	177.6	176.8

The carrying amount of goodwill at 28 February 2013 is comprised of £112.6m for Hotels & Restaurants and £65.0m 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.

There has been a small addition in the year, £0.7m, for the Costa CGU which relates to Coffeeheaven Poland, which acquired seven cafés operated by the Costa franchise partner, E-Coffee in Poland, on 15 May 2012.

The brand intangible asset arose with the acquisition of Coffeeheaven in 2009/10. It is being amortised over a period of 15 years.

The customer relationships asset arose with the acquisition of Coffee Nation in a 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 ten years from the date it became fully operational.

Other intangibles

Other intangibles comprise Costa overseas trading licences and Costa Express operating rights agreements.

The trading licences, which have a carrying value of £1.8m (2012: £1.8m), are deemed to have an infinite life as there is no time limit associated with them. The operating rights agreements are being amortised over periods of six years and ten years and have a carrying value of £2.3m (2012: £nil). The balance of £0.4m (2012: £0.4m) relates to territory fees which are being amortised over 20 years.

Capital expenditure commitments

Capital expenditure commitments in relation to intangible assets at the year-end amounted to £2.6m (2012: £nil).

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 3 March 2011	2,074.2	842.5	2,916.7
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	2,176.8	962.2	3,139.0
Additions	138.6	188.2	326.8
Interest capitalised	2.7	—	2.7
Reclassified	(3.5)	3.5	—
Assets written off	(51.4)	(59.8)	(111.2)
Foreign currency adjustment	(0.8)	1.5	0.7
Transfers	—	(1.8)	(1.8)
Movements to held for sale in the year	(6.9)	(0.6)	(7.5)
Disposals	(27.6)	(14.3)	(41.9)
At 28 February 2013	2,227.9	1,078.9	3,306.8



Notes to the consolidated financial statements

At 28 February 2013

13 Property, plant and equipment continued

	Land and buildings £m	Plant and equipment £m	Total £m
Depreciation and impairment			
At 3 March 2011	(177.5)	(323.3)	(500.8)
Depreciation charge for the year	(11.5)	(93.5)	(105.0)
Reclassified	2.3	(2.3)	—
Impairment (Note 14)	(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	(189.2)	(369.3)	(558.5)
Depreciation charge for the year	(13.4)	(106.9)	(120.3)
Reclassified	0.3	(0.3)	—
Impairment (Note 14)	(2.6)	(2.2)	(4.8)
Depreciation on assets written off	51.4	59.8	111.2
Foreign currency adjustment	—	(0.5)	(0.5)
Movements to held for sale in the year	5.1	0.3	5.4
Disposals	1.6	8.0	9.6
At 28 February 2013	(146.8)	(411.1)	(557.9)
Net book value at 28 February 2013	2,081.1	667.8	2,748.9
Net book value at 1 March 2012	1,987.6	592.9	2,580.5

There is a charge in favour of the pension scheme over properties with a market value of £408m. See Note 31 for further information.

Capital expenditure commitments	2013 £m	2012 £m
Capital expenditure commitments for property, plant and equipment for which no provision has been made	50.1	62.0

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 dependant 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 £177.5m over the next five years (2012: £179.3m).

Capitalised interest

Interest capitalised during the year amounted to £2.7m, using an average rate of 4.5% (2011/12: £3.1m, using an average rate of 5.4%).

Assets held for sale

During the year, certain property assets with a net book value of £2.1m (2011/12: £nil) were transferred to assets held for sale. Property assets sold during the year had a net book value of £0.6m (2011/12: £3.4m), and five trading sites with a combined net book value of £1.5m (2011/12: £0.6m) continued to be classified as assets held for sale at the year-end. An impairment loss of £0.6m (2011/12: £nil) was recognised in the year.



Notes to the consolidated financial statements

At 28 February 2013

14 Impairment

During the year impairment losses of £15.3m (2011/12: £13.5m) and impairment reversals of £9.9m (2011/12: £3.3m) were recognised.

	2012/13 Property, plant and equipment £m	2011/12 Property, plant and equipment £m
Impairment losses		
Hotels & Restaurants	13.6	12.8
Costa	1.7	0.7
Impairment reversals		
Hotels & Restaurants	(9.7)	(2.8)
Costa	(0.2)	(0.5)
Total	5.4	10.2

Property, plant and equipment

The Group considers each trading site 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 9.1% in the UK (2011/12: 9.3%), 10.2% in China (2011/12: 10.4%) and 10.6% in Poland (2011/12: 10.8%). 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, ranging from 2.0% to 3.4% with the UK, the most significant country, being 2.0% (2011/12: 2.0%).

The events and circumstances that led to the impairment charge of £15.3m are set out below:

Hotels & Restaurants

The impairment of £13.6m 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;
- the economic climate affecting some key regions; and
- 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

Five UK Costa sites, nine sites in Shanghai and nine in the Coffeeheaven business, all with an established trend of poor performance against the required capital investment, have been impaired by £1.7m 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 £9.9m have been recognised, £9.7m in Hotels & Restaurants and £0.2m 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 plans and in the pre-tax discount rates would be an incremental charge of:

	Hotels & Restaurants £m	Costa £m	Total £m
Incremental impairment charge			
Impairment if business plan growth rates were reduced by 1ppt	5.1	—	5.1
Impairment if discount rates were increased by 1ppt	4.8	—	4.8



Notes to the consolidated financial statements

At 28 February 2013

14 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. The future cash flows are based on assumptions from the business plans and cover a five-year period. These business plans and forecasts include management's most recent view of medium-term trading prospects. Cash flows beyond this period are extrapolated using a 2.0% growth rate (2011/12: 2.0%). The pre-tax discount rate applied to cash flow projections is 9.1% (2011/12: 9.3%).

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

15 Investment in joint ventures

Principal joint ventures	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2013	2012
Premier Inn Hotels LLC	PTI Middle East Limited	Hotels	United Arab Emirates	49.0	49.0
Rosworth Investments Limited ¹	Costa International Limited	Holding company	Cyprus	—	50.0
Hualian Costa (Beijing) Food & Beverage Management Company Limited	Costa Beijing Limited	Coffee shops	China	50.0	50.0

¹ During the year the joint venture in Rosworth Investments Limited was sold to the joint venture partner.

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

Share of joint ventures' balance sheets	2013 £m	2012 £m
Current assets	7.1	5.4
Non-current assets	46.9	40.9
Share of gross assets	54.0	46.3
Current liabilities	(4.6)	(3.6)
Non-current liabilities	(27.9)	(28.8)
Share of gross liabilities	(32.5)	(32.4)
Loans to joint ventures	2.5	4.8
Share of net assets	24.0	18.7

Share of joint ventures' revenue and expenses	2012/13 £m	2011/12 £m
Revenue	17.3	14.1
Operating costs	(15.6)	(13.6)
Finance costs	(1.2)	(1.0)
Operating profit/(loss) before tax and exceptions	0.5	(0.5)
Disposal of fixed assets	—	(0.2)
Profit/(loss) before tax	0.5	(0.7)
Tax	—	—
Net profit/(loss)	0.5	(0.7)

At 28 February 2013 the Group's share of the capital commitments of its joint ventures amounted to £5.5m (2012: £7.3m).



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At 28 February 2013

16 Investment in associate

Principal associate	Investment held by	Principal activity	Country of incorporation	% equity interest	
				2013	2012
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	2013 £m	2012 £m
Current assets	1.8	1.5
Non-current assets	5.1	5.2
Share of gross assets	6.9	6.7
Current liabilities	(0.5)	(0.4)
Non-current liabilities	(4.7)	(4.7)
Share of gross liabilities	(5.2)	(5.1)
Share of net assets	1.7	1.6
Share of associate's revenue and profit	2012/13 £m	2011/12 £m
Revenue	2.7	2.9
Profit	0.8	0.9

17 Other financial assets – non-current

	2013 £m	2012 £m
Opening cost or valuation	—	0.9
Impairment	—	(0.9)
Closing cost or valuation	—	—

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.

18 Inventories

	2013 £m	2012 £m
Raw materials and consumables (at cost)	3.5	3.9
Finished goods (at cost)	23.0	19.2
Total inventories at lower of cost and net realisable value	26.5	23.1



Notes to the consolidated financial statements

At 28 February 2013

19 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	54.2	47.7
Prepayments and accrued income	39.0	32.9
Other receivables	14.2	8.0
	107.4	88.6
Analysed as:		
Current	102.1	85.0
Non-current — other receivables	5.3	3.6
	107.4	88.6

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

The provision for impairment of receivables at 28 February 2013 was £2.9m (2012: £3.6m).

The ageing analysis of trade receivables is as follows:

	2013 £m	2012 £m
Neither past due nor impaired	41.0	39.0
Less than 30 days	9.9	7.6
Between 30 and 60 days	1.9	0.7
Greater than 60 days	1.4	0.4
	54.2	47.7

20 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	39.2	40.3
Short-term deposits	1.6	—
	40.8	40.3

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 £40.8m (2012: £40.3m).

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

	2013 £m	2012 £m
Cash at bank and in hand	39.2	40.3
Short-term deposits	1.6	—
Bank overdrafts (Note 22)	—	(0.7)
	40.8	39.6



Notes to the consolidated financial statements

At 28 February 2013

21 Financial liabilities

	Maturity	Current		Non-current	
		2013 £m	2012 £m	2013 £m	2012 £m
Bank overdrafts	On demand	—	0.7	—	—
Short-term borrowings	On demand	9.0	13.5	—	—
		9.0	14.2	—	—
Unsecured					
Revolving credit facility (£650m)	2016	—	—	242.0	272.9
Private placement loan notes	2017 to 2022	—	—	260.9	257.5
Total		9.0	14.2	502.9	530.4

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.

Private placement loan notes

The Group 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	US\$40.0m	13 August 2017	4.55%
Series B loan notes	2010	US\$75.0m	13 August 2020	5.23%
Series C loan notes	2010	£25.0m	13 August 2020	5.19%
Series A loan notes	2011	US\$60.0m	26 January 2019	3.92%
Series B loan notes	2011	US\$56.5m	26 January 2019	4.12%
Series C loan notes	2011	US\$93.5m	26 January 2022	4.86%
Series D loan notes	2011	£25.0m	6 September 2021	4.89%

The Group entered into a number of cross-currency swap agreements in relation to the loan notes to eliminate any foreign exchange risk on interest rates or on the repayment of the principal borrowed. These swaps expire in line with the loan rates and are discussed in Note 25.

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

Year ended 28 February 2013	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
Fixed rate	—	—	26.7	234.2	260.9
Fixed to floating rate swaps	—	—	—	(50.1)	(50.1)
Floating to fixed interest rate swaps	—	—	50.0	50.0	100.0
	—	—	76.7	234.1	310.8
Floating rate	9.0	—	242.0	—	251.0
Fixed to floating rate swaps	—	—	—	50.1	50.1
Floating to fixed interest rate swaps	—	—	(50.0)	(50.0)	(100.0)
	9.0	—	192.0	0.1	201.1
Total	9.0	—	268.7	234.2	511.9



Notes to the consolidated financial statements

At 28 February 2013

21 Financial liabilities continued

Year ended 1 March 2012	Within 1 year £m	1–2 years £m	2–5 years £m	Over 5 years £m	Total £m
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
	100.0	—	50.0	257.4	407.4
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)
	(85.8)	—	222.9	0.1	137.2
Total	14.2	—	272.9	257.5	544.6

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 28 February 2013, the Group had available £405.0m (2012: £373.0m) of undrawn committed borrowing facilities in respect of revolving credit facilities on which all conditions precedent had been met.

22 Movements in cash and net debt

Year ended 28 February 2013	1 March 2012 £m	Cost of borrowings £m	Cash flow £m	Foreign exchange £m	Fair value adjustments to loan capital £m	Amortisation of premiums and discounts £m	28 February 2013 £m
Cash at bank and in hand	40.3						39.2
Short-term deposits	—						1.6
Overdrafts	(0.7)						—
Cash and cash equivalents	39.6	—	0.4	0.8	—	—	40.8
Short-term bank borrowings	(13.5)	—	4.5	—	—	—	(9.0)
Loan capital under one year	—						—
Loan capital over one year	(530.4)						(502.9)
Total loan capital	(530.4)	—	32.0	—	(3.1)	(1.4)	(502.9)
Net debt	(504.3)	—	36.9	0.8	(3.1)	(1.4)	(471.1)

Year ended 1 March 2012	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
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)



Notes to the consolidated financial statements

At 28 February 2013

23 Provisions

	Onerous contracts £m	Reorganisation £m	Other £m	Total £m
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)
At 1 March 2012	40.6	—	7.2	47.8
Created	—	—	0.3	0.3
Unwinding of discount rate	1.1	—	—	1.1
Utilised	(6.2)	—	(0.1)	(6.3)
At 28 February 2013	35.5	—	7.4	42.9
Analysed as:				
Current	10.3	—	—	10.3
Non-current	25.2	—	7.4	32.6
At 28 February 2013	35.5	—	7.4	42.9
Analysed as:				
Current	10.7	—	—	10.7
Non-current	29.9	—	7.2	37.1
At 1 March 2012	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 sublet 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 sublet, 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% (2012: 3.74%) based on an approximation for the time value of money.

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.

Other

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



Notes to the consolidated financial statements

At 28 February 2013

24 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 in conjunction with private placement loan notes. The Group's policy is to fix, on a long-term basis, between 35% and 65% of projected net interest cost. This policy reduces the Group's exposure to the consequences of interest rate fluctuations. At the year-end, £310.8m (61.8%) of Group debt was fixed for an average of 6.87 years at an average interest rate of 5.1% (2012: £407.4m, 74.8%, for 5.50 years, at 5.3%).

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 28 February 2013 and 1 March 2012 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 £1.9m (2011/12: £1.3m) and equity by approximately £6.6m (2012: £7.8m).

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.

The tables below summarise the maturity profile of the Group's financial liabilities at 28 February 2013 and 1 March 2012 based on contractual undiscounted payments, including interest:

28 February 2013	On demand £m	Less than 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings	9.0	0.4	11.7	316.5	259.3	596.9
Derivative financial instruments	—	2.3	2.3	16.2	9.1	29.9
Trade and other payables	—	159.2	—	17.6	—	176.8
Accrued financial liabilities	—	—	113.6	—	—	113.6
Provisions in respect of financial liabilities	—	2.6	7.7	14.7	17.2	42.2
	9.0	164.5	135.3	365.0	285.6	959.4

1 March 2012	On demand £m	Less than 3 months £m	3–12 months £m	1–5 years £m	More than 5 years £m	Total £m
Interest-bearing loans and borrowings	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
	14.2	166.0	129.5	371.2	324.2	1,005.1



Notes to the consolidated financial statements At 28 February 2013

24 Financial risk management objectives and policies continued

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 19.

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.

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 30 to 33 of this 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 EBITDAR) on a pensions lease adjusted basis at 3.5 times or below which was achieved for the year ended 28 February 2013. This calculation takes account of net debt, pensions deficit and the 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. In addition, the Group may carry out a number of small sale and leaseback transactions to provide further funding for growth.

The Group's financing is subject to financial covenants. These covenants relate to the 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 these 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.

25 Financial instruments

Fair values

As in the prior year the fair value of financial assets and liabilities disclosed in Notes 17, 19, 20, 21, 22, 23 and 26 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.



Notes to the consolidated financial statements

At 28 February 2013

25 Financial instruments continued

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.

28 February 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Derivative financial instruments	—	8.5	—	8.5
Financial liabilities				
Derivative financial instruments	—	23.3	—	23.3
1 March 2012	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities				
Derivative financial instruments	—	26.7	—	26.7

During the year ended 28 February 2013 there were no transfers between levels 1, 2 or 3 fair value measurements. Derivative financial instruments include £7.1m assets (2012: £nil) and £18.7m liabilities (2012: £20.1m) 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 28 February 2013 the Group had interest rate swaps in place to swap a notional amount of £100.0m (2012: £200.0m) whereby it receives variable interest rates based on LIBOR on the notional amount and pays fixed rates of between 5.145% and 5.372% (2012: 5.145% and 5.643%). 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 receives fixed interest rates of between 3.92% and 4.86% (2012: 3.92% and 4.86%) on a notional amount of US\$210.0m (2012: US\$210.0m) and paid an average of 4.72% on a notional sterling balance of £158.2m (2012: 4.72% on £158.2m).

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.

Fair value hedges

At 28 February 2013, the Group had cross-currency swaps in place whereby it received a fixed interest rate of 5.23% (2012: 5.23%) on a notional amount of US\$75.0m (2012: US\$75.0m) and paid a spread of between 1.715% and 1.755% (2012: 1.715% and 1.755%) over 6m GBP LIBOR on a notional sterling balance of £50.1m (2012: £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 24.

The cash flow hedges were assessed to be highly effective at 28 February 2013 and a net unrealised gain of £8.3m (2011/12: net unrealised loss of £1.0m) has been recorded in other comprehensive income. The fair value hedges were also assessed to be highly effective at 28 February 2013 with a credit of £0.4m recorded within finance revenue in the income statement (2011/12: £0.7m). During the year, a loss of £7.0m (2011/12: £16.9m) was charged to the income statement in respect of hedged items affecting the net finance charge for the year.



Notes to the consolidated financial statements

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26 Trade and other payables

	2013 £m	2012 £m
Trade payables	111.6	116.1
Other taxes and social security	39.6	36.4
Deferred income	35.2	20.1
Accruals	113.6	105.5
Other payables	65.2	59.6
	365.2	337.7
Analysed as:		
Current	347.6	321.3
Non-current	17.6	16.4
	365.2	337.7

27 Share capital

Ordinary share capital

Allotted, called up and fully paid ordinary shares of 76.80p each (2012: 76.80p each)	million	£m
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	—	—
At 1 March 2012	192.0	147.5
Issued	0.2	0.2
Issued in lieu of dividends:		
2011/12 final	0.6	0.4
2012/13 interim	0.2	0.2
At 28 February 2013	193.0	148.3

At the 2012 Annual General Meeting, the Company was authorised to purchase up to 17.8m of its own shares on the open market.

During the year no ordinary shares were acquired (2011/12: nil). No shares were cancelled in the year (2011/12: nil). The remainder are being held in the treasury reserve (Note 28).

During the year to 28 February 2013 options over 0.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2011/12: 0.5m).

Shareholders were offered a scrip alternative to the 2011/12 cash final dividend of 33.75p and to the 2012/13 cash interim dividend of 19.50p. Ordinary shares issued in respect of this totalled 840,852. 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 193.0m less 13.8m treasury shares held by Whitbread PLC and 1.1m held by the ESOT (2012: 192.0m less 14.1m treasury shares held by Whitbread PLC and 0.9m held by the ESOT).



Notes to the consolidated financial statements At 28 February 2013

27 Share capital continued

Preference share capital

	B shares		C shares	
	million	£m	million	£m
Allotted, called up and fully paid shares of 1p each (2012: 1p each)				
At 3 March 2011	2.0	—	1.9	—
Repurchased and cancelled	—	—	—	—
At 1 March 2012	2.0	—	1.9	—
Repurchased and cancelled	—	—	—	—
At 28 February 2013	2.0	—	1.9	—

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

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

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

28 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 £0.6m were issued in lieu of the 2011/12 final and 2012/13 interim cash dividends (2011/12: £0.1m).

Capital redemption reserve

A capital redemption reserve was created on the cancellation of the Group's B and C preference shares (Note 27) 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 2000/01 of Whitbread Group PLC and Whitbread PLC.



Notes to the consolidated financial statements

At 28 February 2013

28 Reserves continued

Hedging reserve

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

The total of the treasury, merger and hedging reserves equals other reserves in the balance sheet.

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 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
Transferred	(0.3)	(5.1)	0.3	5.1
Purchased	—	—	0.1	3.2
Exercised during the year	—	—	(0.2)	(3.6)
At 28 February 2013	13.8	201.5	1.1	18.4

The treasury shares reduce the amount of reserves available for distribution to shareholders by £219.9m (2012: £220.3m).

29 Commitments and contingencies

Operating lease commitments

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

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

Future minimum rentals payable under non-cancellable operating leases on an undiscounted basis are as follows:

	2013 £m	2012 £m
Due within one year	163.1	132.1
Due after one year but not more than five years	554.6	465.5
Due after five years but not more than ten years	502.1	393.3
Due after ten years	1,240.7	996.3
	2,460.5	1,987.2

Future minimum rentals payable under non-cancellable operating leases disclosed above includes £123.0m in relation to privity contracts (2011/12: £127.7m). Future lease costs in respect of these privity contracts are included within the onerous contracts provision (Note 23). 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 14.7 years (2012: 13.9 years).

Group companies have sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 28 February 2013 are £11.8m (2012: £16.6m).

Contingent liabilities

In the financial year ended 3 March 2011 the Group received a £4.6m refund of VAT charged on gaming machine income, together with associated interest of £0.7m. The refund was made following a ruling that the application of VAT to certain types of gaming machine income contravened the European Union's principle of fiscal neutrality. HMRC have appealed against the ruling and if HMRC's appeal is upheld the refund and associated interest of £5.3m would be repayable.



Notes to the consolidated financial statements At 28 February 2013

30 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), earnings per share (EPS) performance and return on capital employed (ROCE) targets over a three-year period. Details of the performance targets for the LTIP awards can be seen in the remuneration report on pages 49 to 63.

The awards are settled in equity once exercised.

Movements in the number of share awards are as follows:

	2013 Awards	2012 Awards
Outstanding at the beginning of the year	888,885	701,386
Granted during the year	339,816	336,402
Exercised during the year	(227,087)	(115,735)
Expired during the year	(42,740)	(33,168)
Outstanding at the end of the year	958,874	888,885
Exercisable at the end of the year	119,293	—

Deferred equity awards

Awards are made under the Whitbread Leadership Group Incentive Scheme implemented during 2004/05.

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:

	2013 Awards	2012 Awards
Outstanding at the beginning of the year	393,243	406,878
Granted during the year	154,203	302,014
Exercised during the year	(13,751)	(313,861)
Expired during the year	(29,808)	(1,788)
Outstanding at the end of the year	503,887	393,243
Exercisable at the end of the year	—	—



Notes to the consolidated financial statements

At 28 February 2013

30 Share-based payment plans continued

Employee share scheme

The employee Sharesave 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 weighted average exercise price (WAEP) are as follows:

	2013		2012	
	Options	WAEP £ per share	Options	WAEP £ per share
Outstanding at the beginning of the year	1,160,139	11.91	1,304,032	9.74
Granted during the year	399,084	19.14	514,594	13.39
Exercised during the year	(221,547)	9.85	(455,411)	7.53
Expired during the year	(212,168)	15.51	(203,076)	11.55
Outstanding at the end of the year	1,125,508	16.27	1,160,139	11.91
Exercisable at the end of the year	15,881	10.44	52,036	7.46

The weighted average contractual life for the share options outstanding as at 28 February 2013 is between two and three years. Outstanding options to purchase ordinary shares of 76.80 pence between 2012 and 2017 are exercisable at prices between £7.28 and £19.14 (2012: between 2011 and 2016 at prices between £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 £24.51 (2012: £16.68).

Total charged to the income statement

	2012/13 £m	2011/12 £m
Long Term Incentive Plan	4.1	2.4
Deferred equity	3.5	3.7
Employee share scheme	1.9	1.9
	9.5	8.0
Equity-settled	9.2	7.9
Cash-settled	0.3	0.1
	9.5	8.0

The following table lists the inputs to the model used for the years ended 28 February 2013 and 1 March 2012:

	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	19/06/2012	339,816	91.4	6,109,341	—	19.67	3.00	3.00	n/a	n/a	Non-market ^{2,3,4}
	09/05/2011	168,201	44.1	1,220,271	—	16.45	3.00	2.71	37.00	1.33	Market ^{1,3}
	09/05/2011	168,201	92.2	2,551,228	—	16.45	3.00	2.71	37.00	1.33	Non-market ^{2,3}
Deferred equity awards	26/04/2012	154,203	91.4	2,707,487	—	19.21	3.00	3.00	n/a	n/a	Service ³
	09/05/2011	302,014	92.2	4,580,868	—	16.45	3.00	2.71	37.00	1.33	Service ³
SAYE — 3 years	30/11/2012	335,917	23.0	1,853,489	19.14	23.99	3.25	2.50	25.00	0.46	Service ³
	02/12/2011	425,494	27.4	1,912,000	13.39	16.42	3.25	3.10	36.00	0.50	Service ³
SAYE — 5 years	30/11/2012	63,167	24.9	377,720	19.14	23.99	5.25	2.50	25.00	0.92	Service ³
	02/12/2011	89,100	33.1	483,600	13.39	16.42	5.25	3.10	35.00	1.10	Service ³

¹ Total shareholder return (TSR)

² Earnings per share

³ Employment service

⁴ Return on capital employed



Notes to the consolidated financial statements At 28 February 2013

30 Share-based payment plans continued

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.

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 1.1m shares at 28 February 2013 (2012: 0.9m). All dividends on the shares in the ESOT are waived by the Trustee.

31 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 was wound up during 2012.

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 £4.1m (2011/12: £3.6m).

At the year-end, 2,897 employees (2012: 1,812) were active members of the schemes, which also had 4,104 deferred members (2012: 6,777).

Defined benefit schemes

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

At the year-end the scheme had no active members (2012: nil), 24,851 deferred pensioners (2012: 25,500) and 16,662 pensions in payment (2012: 16,511).

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 2011. A deficit recovery plan and some protection whilst the scheme remains in deficit have been agreed with the Trustee. The Group made a £35m payment in 2012/13 and will make the following payments to the Fund: £55m in August 2013, £65m in each of August 2014 and August 2015; £70m in August 2016; £80m in August 2017 and £75m in 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 (SLP), 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 (SP), 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 consolidated financial statements.



Notes to the consolidated financial statements

At 28 February 2013

31 Retirement benefits continued

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 12 years. At the end of this period, the partnership capital allocated to the Pension Scheme partner will, depending on the funding position of the Pension Scheme at that time, be transferred in cash to the Pension Scheme up to a value of £150m (2012: £150m).

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 consolidated financial statements. Accordingly the pension deficit position in these consolidated financial statements does not reflect the £141m (2012: £141m) investment in Moorgate SLP held by the Pension Scheme.

During the year the Group agreed to enter into a charge in favour of Whitbread Pension Trustees Limited over properties with a market value totalling £180m at that date which was completed on 17 April 2013. The charge was to secure the obligations of the Group to make payments to the Pension Fund as part of the recovery plan to reduce the deficit. This together with the properties secured as a consequence of the arrangement in the Scottish Limited Partnerships, secures properties totalling £408m in favour of the pension scheme.

The total service cost contributions to the Whitbread Group Pension Fund in 2013/14 will be £nil.

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

The principal assumptions used by the independent qualified actuaries in updating the most recent valuation, carried out as at 31 March 2011, of the UK schemes to 28 February 2013 for IAS 19 purposes were:

	At 28 February 2013 %	At 1 March 2012 %
Pre-April 2006 rate of increase in pensions in payment and deferred pensions	3.20	3.00
Post-April 2006 rate of increase in pensions in payment and deferred pensions	2.20	2.20
Pension increases in deferment	3.20	3.00
Discount rate	4.60	4.65
Inflation assumption	3.35	3.15

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 20.9 years (2012: 20.8) if they are male and for a further 23.4 years (2012: 23.3) if they are female. For a member who retires in 2032 at age 65, the assumptions are that they will live on average for a further 22.7 years (2012: 22.6) after retirement if they are male and for a further 25.2 years (2012: 25.1) 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 28 February 2013 (rounded to the nearest 0.1% per annum).

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

Amounts recognised in operating profit for service costs or curtailment are £nil (2011/12: £nil).

	2012/13 £m	2011/12 £m
Expected return on scheme assets	(70.4)	(81.6)
Interest cost on scheme liabilities	88.4	95.6
Other finance cost (Note 8)	18.0	14.0



Notes to the consolidated financial statements

At 28 February 2013

31 Retirement benefits continued

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

	2012/13 £m	2011/12 £m
Actual return on scheme assets	174.4	66.7
Less: expected return on scheme assets	(70.4)	(81.6)
Other actuarial gains and losses	(74.7)	(177.2)
	29.3	(192.1)

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

The amounts recognised in the balance sheet are as follows:

	2013 £m	2012 £m
Present value of defined benefit obligations	(2,021.6)	(1,939.7)
Fair value of scheme assets	1,479.9	1,341.0
Liability recognised in the balance sheet	(541.7)	(598.7)

During the year the accounting deficit decreased from £598.7m at 1 March 2012 to £541.7m at 28 February 2013. The principal reason for this reduction was the actual asset performance being significantly better than expected while actual pension increases were also lower than assumed.

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

	2013 £m	2012 £m
Opening defined benefit obligation	1,939.7	1,745.0
Net interest cost	88.4	95.6
Actuarial losses on scheme liabilities	74.7	177.2
Benefits paid	(81.1)	(77.6)
Benefits settled by the Company in relation to an unfunded pension scheme	(0.1)	(0.5)
Closing defined benefit obligation	2,021.6	1,939.7

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

	2013 £m	2012 £m
Opening fair value of scheme assets	1,341.0	1,257.0
Expected return on scheme assets	70.4	81.6
Actuarial gains/(losses) on scheme assets	104.0	(14.9)
Contributions from employer	37.2	86.8
Additional contributions from Moorgate SLP	8.4	8.1
Benefits paid	(81.1)	(77.6)
Closing fair value of scheme assets	1,479.9	1,341.0

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

	Expected return		Fair value of assets	
	2013 %	2012 %	2013 £m	2012 £m
Equities	n/a	7.2	868.5	727.3
Government bonds	n/a	3.2	317.1	374.8
Corporate bonds	n/a	4.6	173.5	131.3
Property	n/a	5.7	68.6	45.8
Cash	n/a	3.2	52.2	61.8
			1,479.9	1,341.0

As the Group is adopting IAS 19 (2011) from 1 March 2013, there are no expected return on asset assumptions, (and consequently no weighted average expected rate of return on the asset base) at 28 February 2013, as these will no longer be required. Expected returns will be replaced by recording interest income, calculated by using the discount rate used to measure the pension obligation.



Notes to the consolidated financial statements

At 28 February 2013

31 Retirement benefits continued

History of experience gains and losses:

	2013	2012	2011	2010	2009
Present value of defined benefit obligations (£m)	(2,021.6)	(1,939.7)	(1,745.0)	(1,715.0)	(1,340.0)
Fair value of scheme assets (£m)	1,479.9	1,341.0	1,257.0	1,281.0	1,107.0
Liability recognised in the balance sheet (£m)	(541.7)	(598.7)	(488.0)	(434.0)	(233.0)
Experience adjustments on scheme liabilities (£m)	5.3	12.8	(25.8)	(3.0)	(7.5)
Percentage of scheme liabilities (%)	(0.26)	(0.66)	1.48	0.17	0.60
Experience adjustments on scheme assets (£m)	104.0	(14.9)	(39.6)	173.0	(338.0)
Percentage of scheme assets (%)	7.03	(1.11)	(3.15)	13.51	(30.50)

The cumulative amount of actuarial gains and losses recognised since 4 March 2004 in the Consolidated statement of comprehensive income is £(599.8)m (2012: £(629.1)m).

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

	(Increase)/decrease in liability	
	2013 £m	2012 £m
0.25% increase to discount rate	83.0	80.0
Additional one-year increase to life expectancy	(70.0)	(70.0)

32 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	2013	2012
Whitbread Group PLC	Hotels & Restaurants	England		100.0	100.0
Premier Inn Hotels Limited	Hotels	England		100.0	100.0
Whitbread Restaurants Limited	Restaurants	England		100.0	100.0
Premier Inn Limited	Hotels	England		100.0	100.0
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England		100.0	100.0
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China		51.0	51.0
Coffeeheaven International Limited	Operators of coffee shops in eastern Europe	England		100.0	100.0
Coffee Nation Limited	Operators of customer facing espresso based coffee vending machines	England		100.0	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 consolidated financial statements. Further details can be found in Note 31.



Notes to the consolidated financial statements

At 28 February 2013

32 Related party disclosure continued

Shares in Whitbread Group PLC are held directly by Whitbread PLC. Shares in the other subsidiaries are held by Whitbread Group PLC. All principal subsidiary undertakings have the same year-end as Whitbread PLC, with the exception of Yueda Costa (Shanghai) Food & Beverage Management Company Limited which has a year-end of 31 December as required by Chinese legislation. 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			
2012/13	2.7	1.2	—
2011/12	2.8	1.3	—
Associate			
2012/13	3.1	0.4	—
2011/12	3.1	—	2.5

Compensation of key management personnel (including directors):

	2012/13 £m	2011/12 £m
Short-term employee benefits	5.8	5.1
Post employment benefits	0.2	0.3
Share-based payments	4.2	5.5
	10.2	10.9

Joint ventures

For details of the Group's investments in joint ventures see Note 15.

Associate

For details of the Group's investment in associate 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 28 February 2013, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties (2012: £nil). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Transactions with other related parties

Details of transactions with directors are detailed in the remuneration report on pages 49 to 63.

33 Events after the balance sheet date

A final dividend of 37.90p per share (2012: 33.75p) amounting to a dividend of £67.5m (2012: £59.8m) was recommended by the directors at their meeting on 29 April 2013. A scrip alternative will be offered. These financial statements do not reflect this dividend payable.



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Directors' responsibility for the Company financial statements

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the Company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare Company financial statements for each financial year. Under that law the directors have elected to prepare the Company 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 Company 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 Company 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 Company 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 Company 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

Independent auditor's report to the members of Whitbread PLC

We have audited the Company financial statements of Whitbread PLC for the year ended 28 February 2013 which comprise the Balance Sheet and 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 of auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Company 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 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 Company financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the Company 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 Company financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Company financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Company financial statements

In our opinion the Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2013;
- 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 consolidated financial statements are prepared is consistent with the 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 Company or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and 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 consolidated financial statements of Whitbread PLC for the year ended 28 February 2013.

Les Clifford

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

29 April 2013



Balance sheet At 28 February 2013

	Notes	28 February 2013 £m	1 March 2012 £m
Fixed assets			
Investment in subsidiaries	5	2,256.1	2,256.1
Current assets			
Debtors: amounts falling due within one year	6	125.9	197.6
Current liabilities			
Creditors: amounts falling due within one year	7	(2.1)	(4.1)
Net current assets		123.8	193.5
Net assets		2,379.9	2,449.6
Capital and reserves			
Share capital	8	148.3	147.5
Share premium	9	55.1	53.7
Capital redemption reserve	9	12.3	12.3
Retained earnings	9	2,365.7	2,442.7
Other reserves	9	(201.5)	(206.6)
Shareholders' funds	9	2,379.9	2,449.6

Andy Harrison
Chief Executive

Nicholas Cadbury
Finance Director

29 April 2013



Notes to the accounts At 28 February 2013

1 Basis of accounting

The financial statements of Whitbread PLC for the year ended 28 February 2013 were authorised for issue by the Board of Directors on 29 April 2013.

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 £5.9m (2012: £11.2m).

4 Dividends paid and proposed

	2012/13		2011/12	
	pence per share	£m	pence per share	£m
Final dividend relating to the prior year	33.75	59.8	33.25	58.6
Settled via scrip issue		(10.9)		(1.5)
Paid in the year		48.9		57.1
Interim dividend for the current year	19.50	34.7	17.50	31.0
Settled via scrip issue		(5.8)		(1.1)
Paid in the year		28.9		29.9
B share dividend	1.28	—	1.18	—
C share dividend	1.66	—	1.28	—
		—		—
Total dividends paid		77.8		87.0
Proposed for approval at Annual General Meeting:				
Final dividend for the current year	37.90	67.5	33.75	59.7

A final dividend of 37.90p per share (2012: 33.75p) amounting to a dividend of £67.5m (2012: £59.8m) was recommended by the directors at their meeting on 29 April 2013. A scrip alternative will be offered. These financial statements do not reflect this dividend payable.



Notes to the accounts

At 28 February 2013

5 Investment in subsidiary undertakings

Shares at cost		2013 £m	2012 £m
At 1 March 2012 and 28 February 2013		2,256.1	2,256.1
Principal subsidiary undertakings	Principal activity	Country of incorporation or registration	Country of principal operations
Whitbread Group PLC	Hotels & Restaurants	England	England
Premier Inn Hotels Limited	Hotels	England	England
Whitbread Restaurants Limited	Restaurants	England	England
Premier Inn Limited	Hotels	England	England
Costa Limited	Operators of coffee shops and roasters and wholesalers of coffee beans	England	England
Yueda Costa (Shanghai) Food & Beverage Management Company Limited	Operators of coffee shops	China	China
Coffeeheaven International Limited	Operators of coffee shops in eastern Europe	England	Poland
Coffee Nation Limited	Operators of customer facing espresso based coffee vending machines	England	England

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 31 of the Whitbread PLC consolidated financial statements.

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	2013 £m	2012 £m
Amounts owed by subsidiary undertakings	125.9	197.6

7 Creditors

Amounts falling due within one year	2013 £m	2012 £m
Other creditors	0.2	0.2
Corporation tax payable	1.9	3.9
	2.1	4.1



Notes to the accounts

At 28 February 2013

8 Share capital

Allotted, called up and fully paid ordinary shares of 76.80p each (2012: 76.80p each)		million	
£m			
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		—	—
At 1 March 2012		192.0	147.5
Issued		0.2	0.2
Issued in lieu of dividends:			
2011/12 final		0.6	0.4
2012/13 interim		0.2	0.2
At 28 February 2013		193.0	148.3

At the 2012 Annual General Meeting, the Company was authorised to purchase up to 17.8m of its own shares on the open market.

During the year no ordinary shares were acquired (2011/12: nil). No shares were cancelled in the year (2011/12: nil). The remainder are being held in the treasury reserve (Note 9).

During the year to 28 February 2013, options over 0.2m ordinary shares, fully paid, were exercised by employees under the terms of various share option schemes (2011/12: 0.5m).

Shareholders were offered a scrip alternative to the 2011/12 cash final dividend of 33.75p and to the 2012/13 cash interim dividend of 19.50p. Ordinary shares issued in respect of this totalled 840,852. 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 3 March 2011, 1 March 2012 and 28 February 2013	2.0	—	1.9	—

At 28 February 2013 there were outstanding options for employees to purchase up to 1.1m (2012: 1.2m) ordinary shares of 76.80 pence each between 2012 and 2017 at prices between £7.28 and £19.14 per share (2012: between 2011 and 2016 at prices between £7.28 and £14.17 per share).



Notes to the accounts

At 28 February 2013

9 Shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Treasury shares £m	Total £m
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
Ordinary shares issued	0.2	2.0	—	—	—	2.2
Transfer of shares	—	—	—	(5.1)	5.1	—
Scrip dividends	0.6	(0.6)	—	16.7	—	16.7
Profit for the financial year	—	—	—	5.9	—	5.9
Equity dividends	—	—	—	(94.5)	—	(94.5)
At 28 February 2013	148.3	55.1	12.3	2,365.7	(201.5)	2,379.9

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

	Treasury shares held by Whitbread PLC	
	million	£m
At 1 March 2012	14.1	206.6
Transferred during the year	(0.3)	(5.1)
At 28 February 2013	13.8	201.5

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 £23.2m (2012: £13.7m).



Shareholder services

Contact details

Registrars

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

The website address is
www.capitaregistrars.com

For enquiries regarding your shareholding please telephone 0844 855 2327 from the UK and +44(0)20 8639 3400 from outside the UK. Alternatively you can email: whitbread@capitaregistrars.com.

You can also manage your shareholding by visiting 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 Service¹;
- [view](#) your holding and get an indicative valuation; and
- [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.

Share Dealing Service¹

Capita Share Dealing Services, telephone 0871 664 0446 (calls cost 10p per minute plus network extras, lines are open 8am to 4.30pm, Monday to Friday) www.capitadeal.com.

¹ 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.

Registered Office

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

General Counsel and Company Secretary

Simon Barratt

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 at the beginning of this page.

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 ring the registrars on 0844 855 2327.

Dividend history

2012/13	57.40p
2011/12	51.25p
2010/11	44.50p
2009/10	38.00p
2008/09	36.55p

Dividend diary 2013/14

Ex dividend date for final dividend	15 May 2013
Record date for final dividend	17 May 2013
Payment of final dividend	12 July 2013
Ex dividend date for interim dividend	6 November 2013
Record date for interim dividend	8 November 2013
Payment of interim dividend	10 January 2014

Financial reporting calendar

(dates subject to confirmation)

Half year-end	29 August 2013
Announcement of half-year results	22 October 2013
End of financial year	27 February 2014

Capital gains tax

For further information on:

- the market value of shares in the Company as at 31 March 1982;
- the reduction of Capital on 10 May 2001; and
- the special dividend and share consolidation in May 2005, or if you require any further information on capital gains tax allocations, please refer to the investors' section of the Company's website www.whitbread.co.uk.

Unsolicited mail

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

If you are a resident in the UK and wish to stop receiving unsolicited mail then you should register with the Mailing Preference Service, telephone: 0845 703 4599 or you may prefer to register online: mpsonline.org.uk.

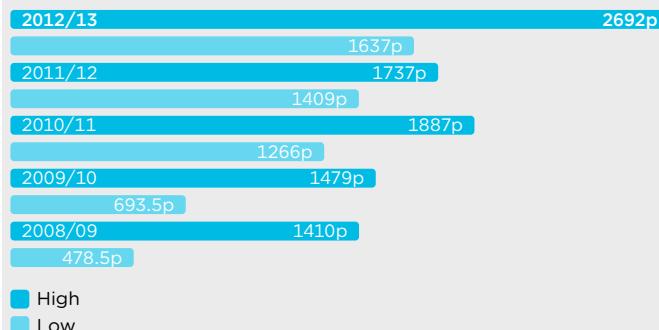


Shareholder services

Analysis of shares

Band	Number of holders	% of holders	Number of shares	% of share capital
1–100	25,235	51.49	920,042	0.48
101–500	16,647	33.97	4,010,747	2.08
501–1,000	3,838	7.83	2,717,378	1.41
1,001–5,000	2,389	4.87	4,423,295	2.29
5,001–10,000	225	0.46	1,550,929	0.80
10,001–50,000	339	0.69	8,233,983	4.26
50,001–100,000	90	0.18	6,500,382	3.37
100,001–500,000	182	0.37	38,663,412	20.02
500,001–1,000,000	33	0.07	23,050,001	11.94
1,000,001–5,000,000	28	0.06	50,821,720	26.32
5,000,001+	6	0.01	52,188,396	27.03
Total	49,012	100.00	193,080,285	100.00

Share price history



Annual General Meeting 2013

The 2013 AGM will be held on Tuesday 18 June 2013 at The Queen Elizabeth Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Shareholder FAQs

Where can I find information about B and 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.

How can I find the current share price?

It is easy to keep up to date with the current share price at the Company's website www.whitbread.co.uk.

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

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

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) reported that 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:

- make sure you get the correct name of the person or organisation;
- check that they are properly authorised by the FSA before getting involved by visiting 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.
- 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.



The Costa Foundation

We don't just make coffee; we make a difference

We're committed to looking after coffee-growers and that's why we established the Costa Foundation in 2007. Originally it worked under the registration of Charities Trust, an independently registered charity with the UK Charity Commission. In 2012 the Costa Foundation registered as a stand-alone charity.

The Foundation was set up to give something back to coffee-growing communities and since 2008, 32 schools or school projects have been completed in Colombia, Costa Rica, Ethiopia, Guatemala, Uganda and Vietnam.

The Foundation's objectives are the relief of poverty and the advancement of education, health and environmental protection within coffee-growing communities and surrounding areas.

The money raised through the Foundation has given thousands of children access to education and ensured that the people who grow coffee receive the long-term support needed to ensure sustainable and improved futures.

By 2017 we aim to provide educational facilities to 50,000 children by building 50 schools or school projects. In order to do this we need to raise £5 million in the next five years. It's a huge amount, but with it, we're able to do a huge amount of good.

Help us to continue the good work by donating:
<http://www.costa.co.uk/costa-foundation/donations/>



Registered charity number 1147400.



Great Ormond Street Hospital Children's Charity

Raise a smile and help a child

In May 2012, Whitbread Hotels & Restaurants chose Great Ormond Street Hospital Children's Charity (GOSHCC) as its new charity partner.

Each year, Great Ormond Street Hospital responds to over 200,000 patient visits from children all over the UK who are often suffering from rare, complex and life-threatening conditions.

The charity needs to raise at least £50 million a year to help support the hospital's work and the very special children it cares for. The hospital is in the process of redeveloping and replacing some of its oldest clinical buildings so that families can benefit from world class care in 21st century facilities and have more space to be together at the bedside. We are hoping to raise a significant sum of money that will support this wonderful hospital in achieving these aspirations.

Our first national fundraising campaign took place last September and a further fundraising drive was held in March, giving all our hotels and restaurants the opportunity to get involved, have fun and raise money. At the date of this Report we have raised £1 million for this very special charity.

Help us to continue the good work by donating:
<http://www.gosh.org/donate/single-donation-form/?reasonid=219>



Registered charity number 235825.



WHITBREAD PLC

Whitbread PLC

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

 www.whitbread.co.uk/whitbread/investors.html

